
MARRAKECH – ICANN / IANA Operating Plan & Budget
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XAVIER CALVEZ: Taryn, who will go over the planning process and calendar for us, and then I will proceed with the update of the plan. Thank you. Taryn?

TARYN PRESLEY: Thank you, Xavier. I'll just quickly go through the agenda for today. First, we'll be discussing the planning process and calendar for the draft five-year operating plan update and the draft FY17 operating plan and budget. Then we'll go into the details and specifics of the five-year operating plan update draft. Then we'll move into the draft FY17 operating plan and budget. We'll also talk about USG transition and implementation. We'll go over risks and opportunities for FY17, and then we will talk about the next steps in the process.

The planning process and calendar. This is an overview of ICANN's five-year planning cycle. We begin with the strategic plan, which was adopted by the Board, and that strategic plan informs our five-year operating plan. The five-year operating plan is for FY16-20. Each year, we go through and update the five-year operating plan to reflect progress made toward

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achieving goals. That five-year operating plan update informs our annual operating plan and budget. Every year, that process – that’s actually where we are right now, we’re in between the time where we’re updating the five-year operating plan and then developing the FY17 operating plan and budget. That process lasts about nine months, September through June.

Once we have the FY17 operating plan and budget adopted, or any annual operating plan and budget for that matter, we track our progress and achievement through our reporting. Many of you have participated to our quarterly stakeholder calls and reviewed all of the documents and reporting that we have on our website. That’s where we present to the community how we’ve been tracking against our goals.

Once the year ends, then we validate that what we’ve done is in alignment with the strategic plan, and the cycle continues. We review our strategic plan and then go into updating the five-year operating plan again.

How do we do all this? What’s in these documents? What’s in the five-year operating plan and the annual operating plan and budget? We have what we call ICANN’s management system, and it is basically ICANN’s work structure. It is comprised of five objectives which are core foundational strategies upon which our goals are based.

We have 16 goals that roll up to those five objectives, and those are our desired deliverables to meet organization-wide objectives. We have 63 portfolios that roll up into the 16 goals, and this is all of our cross-functional work undertaken in support of goals to fulfill core deliverables and services. Then we have over 340 projects every year that are endeavors that have a specific set of deliverables, and they are in line with our portfolios, goals, and objectives.

The way we do this is that we gather a lot of community input that goes into both the strategic plan as well as the five-year operating plan and the operating plan and budget. That's a lot of interaction between staff and community, and then ICANN staff goes and translates that into objectives, goals, portfolios, and projects.

At the objective and goal level, the shepherds are the ICANN CEO and his direct reports, and at the portfolio and projects level, that would be ICANN management and staff shepherding all the work.

This is our process and calendar for FY17. This is a bit busy slide, but that's because we have a lot going on and there are many steps to the process, including a lot of community consultations. From July through September, we are pretty much planning the process. We're doing a post-mortem on the prior year's process

to determine successes and where we need to improve. You'll see that in September, there's a green dot there. If you look at the bottom line where the months are listed, the green dot indicates any community consultations that we had.

In September, we had community consultations where we talked about the FY16 process. What was a success? What needed improvement? We decided on deliverables, risks, and planned out the calendar for the year.

Then we went into development phase. Development started September and went through February. During this time, the staff was working on updating the five-year operating plan based on where we thought we would land in FY16, and we got a lot of community input in this development stage.

In October for example, we had a budget working group in Dublin where we discussed a lot about revenue assumptions and expense assumptions, so during that development phase there was quite a bit of community involvement and input.

In March, where we are now, on March 5, we published the draft five-year operating plan update document and the FY17 operating plan and budget document. Xavier will be going over some highlights of those in the coming slides.

Again, we had a community consultation here in Marrakech. On Sunday evening, we had another successful operating plan and budget working group where we went into detail about the documents that have been published, answered questions, and got community input on the documents. With the publishing of those documents on March 5, that opened the public comment period. The public comment period is going to go 56 days, which is I think the longest public comment period for the operating plan and budget.

Just to go back, actually we published two weeks earlier than the prior year, than FY16, and nine weeks earlier than the year before. That allows us a longer period of time to allow the public to review the documents, come up with comments, and allows for more community interaction with staff.

The public comment period will go from March 5 through April 30, and like I said, that's 56 days. The next step during that comment period, staff and members of the board, finance committee are going to have consultations with those who submitted comments so that we can review the comments in detail and ensure that we have a proper understanding of what the comments mean, or if there's an action item, just to discuss exactly what the comments are so we know that we can provide the most adequate response to the comments. Then the report on public comments is to be published on May 30.

After that, we go into the finalization stage. That's where we take all the comments from the community and determine what action needs to be taken in terms of the documents, if any changes need to be made to the five-year operating plan or the FY17 operating plan and budget. That's where we finalize and make changes based on community comments. Then that goes to the board, and the hopeful adoption date would be June 30. That would be in Helsinki on the Thursday, this year.

Let's talk a little bit about the development stage. That was that longest period on the slide before. What do we do during this stage? We first look at FY16. We're almost closing FY16, we have three more months to go. We look at, where are we for FY16? FY16 is year one of the five-year operating plan, so we ask staff to review what was planned for FY16 and forecast the completion of the year. Looking at this, we can then determine what impact that has on the five-year operating plan and budget.

Step two would be to update the five-year operating plan based on the progress we've made towards our strategic goals. That means looking at KPIs (which are key performance indicators), looking at dependencies, any phasing, our list of portfolios, and our financial model. Once we have the five-year plan updated, then we go into developing the FY17 operating plan and budget, and it's based on that update to the five-year operating plan. In

all of these steps, the staff is taking community consultations and getting input from the community on what we should be doing for the rest of FY16, how that will impact the five-year operating plan, and what we should be doing in the next fiscal year, which would be FY17.

Now I'm going to hand it over to Xavier to talk about the five-year operating plan update.

XAVIER CALVEZ:

Thank you, Taryn. Since we are lucky to have the translation in the room, I will be speaking in French, if I can move the slides.

As Taryn just said, the first step in our planning work for this coming year is to update the five-year operating plan. This five-year operating plan contains, of course, the structure of our strategic plan as well as the objectives and the goals. It also contains the projects portfolios, so of course, we considered whether the strategic plans should be updated. The strategic plan is the five-year objectives that we need to get to. We are not suggesting that we change the strategic plan. It was developed with the community over a very detailed consultation project, so at this point as far as our five-year objectives, there is no reason to change them.

Of course, we also considered all of the portfolios. As Taryn indicated earlier, we have about 60 of them. We took into consideration whether or not they had been defined correctly based on our objectives and goals and whether or not they should be updated. We did update the list of portfolios as necessary, we also tried to detail their content, and we also reconfirmed that they had been allocated to the right objectives. We also took into consideration the KPIs, the key performance indicators, because they make it possible to measure our progress towards the objectives.

We also reconfirmed, reconsidered the dependencies between the different portfolios as well as between the different projects in order to make sure that the different activities included in each of these portfolios were timed well together. Of course, the update on those portfolios and projects lead us to revisit timing for each of the objectives and for each of the activities over the five years and the way that we plan for those. So the question was whether the year three activities for example for this five-year plan really will occur in year three, or should it occur in year two or year four and so forth. We questioned the timing of those activities to make sure that our five-year plan did reflect those activities correctly.

That is the type of changes or reviews, sometimes confirmations, that occur on the five-year plan. I will give you

three examples of changes that are now reflected in the five-year plan that was submitted for public consultation. We introduced one of the public responsibility programs, the Stakeholder Journey. This program was included in the five-year plan, which again is available for public comment. The WHOIS is also a very important program that has been detailed in the five-year plan with three different projects that were included in the portfolios that you have here on the screen. They gather all of the activities related to the WHOIS program.

Of course, one of the updates that we also had to do is to detail all of the activities related to the IANA stewardship transition so that might be reflected in the work of our organization and community. This includes all of the activities of this very important project that has continued ever since our 2015 fiscal year, and it will also of course be continued over 2016 and 2017. There is a question. Go ahead.

UNIDENTIFIED MALE:

Thanks, Xavier. If you could back up to the previous slide, in particular I wanted to talk about WHOIS. Is there anything extra included for the Next-Gen WHOIS RDS PDP Working Group, which has huge participation? It has been kicked off. It will go through all of FY17 and beyond. A second question is, under WHOIS, what's OCTO, a research portfolio for OCTO?

XAVIER CALVEZ: Thank you. Next-Gen is included in the implementation portfolio, so that is goal 2.3. As far as the OCTO project, I never remember quite what it is. I don't remember what the acronym means, however we have [Eliza] here so she might be able to help me.

UNIDENTIFIED FEMALE: Office of the Chief Technology Officer.

XAVIER CALVEZ: David Conrad is our CTO and he does all of the research related to the WHOIS program. He does collaborate with the GDD division with Akram Atallah. Thank you for your question.

We went over the first document that was submitted for public comment, the five-year plan. Now, we will focus on FY17 and on the part of the operation plan for 2017, as well as the corresponding budget. Taryn gave us the link to the ICANN website where you can find the documents that have been submitted for public comment.

They are on the homepage of ICANN.org. On there, you can find the public comments button, and you can open it up and find all of the different comments that have been submitted. It is still

open, and at the very bottom you can find the draft operating plan and budget for this five-year plan. You will find this as well as another document with the budget operation plan for FY17.

Inside the second document, what you have is a number of different sections. You have some information related to ICANN operations, the core operations of the organization. We also have a specific section that was introduced this year to introduce details on the IANA stewardship transition. We also have a section in there on the New gTLD Program. If you add those two parts, operations as well as new gTLDs, you end up with all of the activities, all of the financial information related to ICANN. Of course, we also have a section on the SO/AC's additional budget requests, and what it is, is the activities [inaudible] program. The program that was started in 2012 for the introduction of new gTLDs.

What you have here is expenses and revenues and the funds that are dedicated for this particular program. That is a separate project, separate from other expenses within ICANN.

Now let's take a look at the main components of our 2017 budget. We'll see a little bit later that there's an increase in the expenses and revenues within ICANN, which mainly reflects the expansion of the domain names market. We will also see that

ICANN's expenses are increasing, and we will take a look at how those expenses are distributed within the budget.

We will also take a look at a list of the different projects that we have over the next few years, and we will also notice that the ICANN budget for 2017 is balanced. We will also take a look, at an aggregated level, the new gTLD program.

As far as ICANN's turnover, on this slide, you can see what the turnover looks like, what makes it up. The first horizontal line is the turnover that is generated through the registries. The second line towards the bottom is turnover that comes from registrars because you know that ICANN generates its sales through contracts on the one hand from registries and on the other hand from registrars.

For each type of contract, you have two types of income. On the left hand side, the income is basically the domain name registration volume. On the right hand side, what we have is our revenue from fixed fees based on the number of contracts that we have. For example, you have an annual fee for each new TLD in the amount of \$25,000 per year. That amount is fixed, so as soon as you have a contract, as soon as the TLD is registered in the root, ICANN collects a fixed fee of \$25,000 per year.

Here's an example of this transaction. When a domain name is registered, when it is newly created either through the registry

or the registrar whatever the case might be, the registrant receives an invoice for one year of use for this domain name, whether it's \$8-10 or €8-10. When that yearly invoice occurs, the registry or the registrar transfers a fee, a part of that amount, usually 25 cents to ICANN. As soon as you get a new domain name, as soon as a new domain name is created, ICANN receives 25 cents for each year that this new domain is renewed. That is the revenue that we get on the left hand side, and that is true for registries as well as for registrars.

In the end, the revenues for ICANN that was proposed in the 2017 draft is in the amount of \$132 million. What we have is \$102 million for 2015. This is a fixed, an actual revenue. For 2016, we plan on about \$121 million. The fiscal year has not quite yet ended, it will be at the end of June, in three and a half months. So \$132 million for 2017.

As far as planning, we also define possible scenarios in order to measure how sensitive this revenue is, based on the different variables. What we defined is a low scenario of \$126 million and a high estimate of \$137 million. What we think is that the revenues should be around \$132 million. That's something that we've reviewed with the budget working group in detail. We met this past Sunday to talk about that.

As far as expenses, you see this house. I'm not quite sure if it's the Capitol or the Parthenon, but whatever it might be, this is our expenses. ICANN expenses are distributed right here, with at the very top, everything that has to do with engagement with the community and the public. This part includes the different departments, GSC, government engagement, constituencies, and so forth. It represents almost \$23 million – \$22.6 million, as you have on the screen.

The GDD function includes IANA amongst others. It's on the left hand side, in the pillar on the left, and the amount is \$20.4 million. As far as policies, \$6.2 million. All of our technical activities, the OCTO (Office of the CTO that we mentioned earlier) is within the middle pillar, \$6 million. Public responsibility activities – that is one of our five strategic objectives – is at \$3.6 million. Contractual Compliance is the department that takes care of making sure that there is conformity of the registry and registrars to their contracts and agreements. It is right here in compliance and safeguards, for \$5.4 million.

Then we have a certain number of shared services that support all of those operations put together. They include HR, finance, facilities (which is basically rent for all of our offices throughout the world), information technology, legal, strategic initiatives department, communications, as well as translations. Our

translators present in the room, thank you very much for your work. This represents \$62.5 million, and then the ombudsman and CEO is \$2.4 million. The Board and the NomCom, \$3.3 million, \$62.5 for shared services. So this is all of ICANN's expenses based on the different functions.

How did these expenses evolve since last year, so to speak, 2016 budget? We have \$108 million here and \$121.5 million here for 2017, so there are two specific categories where we saw an increase. On the left hand side right here, all of those changes, all of those increases are due to projects that were launched over the past two years and that were implemented. Following the implementation, the annual costs for ICANN increased.

I will give you an example. When you develop a software, for example, of course you have a lot of costs at first to launch the project. When the software is actually used, you need to pay for maintenance, licenses, support, and so forth. So when the project has ended, the expenses for ICANN can still increase. When you set up a software, it is also possible that you might retire another, because at times there is a replacement of one software with another, so some of the costs do decrease at that point.

As far as software, part of the increases that we see in the amount of \$3 million or so, that reflects new software.

Salesforce.com for example is one of the softwares that we have set up. We are also developing another software, the IRP software that is not present currently in the organization and that will make it possible for us to work much more efficiently within the organization. As far as the other increases that you can see on the screen, they are mostly related to an increase in the number of employees, and we will see that reflected in the next slide.

What you have here is a part that reflects the impact of new employees that came in during 2016, and it has an impact on our expenses on 2016. But of course, for 2017, they will have an impact on the whole entire year, whereas in 2016, the impact was only over a few months. As far as 2017, we do have an increase in costs on the activities related to the IANA transition, and that is basically all of the information I have.

Jonathan Robinson has a question, go ahead.

JONATHAN ROBINSON: Thank you, Xavier. Two points to the question, pretty much unrelated but both on this slide. First, if you could just re-clarify the difference between FY16 baseline and FY16 new baseline. What specifically makes that difference? Second, with respect to IANA PTI cost increase, is that a one-off or a recurring cost?

XAVIER CALVEZ:

Thank you. So the question has to do with the difference between FY16 baseline and FY16 new baseline. This notion of a new baseline was introduced in order to analyze the differences between one year and another as new things come in, in the budget. The difference between the two baselines, the new and the regular baseline, there are three different categories there. They result from activities that were multi-year projects within ICANN, and as soon as they were ended, those projects generate permanent annual costs.

I was using the example of a software, because developing a software is a project. When the software has been set up, we have permanent activity costs, such as maintenance or support and so forth. So those activities were projects or pilot projects, and once they were ended, they generated permanent costs so to speak, annual costs for the business. So it is just a way that we analyze growth or increases in our expenses. What I call this is organic growth. Those activities are constant within ICANN as far as staff within the business, increases in their income, their salaries. That is organic growth.

However, this one, this growth or this increase is due to projects that ended but that are related to new activities. I was mentioning Salesforce.com. It is a project that we set up that

once it has been set up, it still generates costs on an annual basis for license, and those costs we didn't have them previously because we didn't have Salesforce.com.

As far as your second question, the million dollars that we have here, which is just an overall figure, is a cost that we believe will continue because it is based on an increase in staff for IANA. We have Elise here who might be able to give you more information if you need it on that. Good? Okay.

The list of multi-year projects. I mentioned earlier the ERP, which is a project that will start over the next few days and that will be continued in 2017. We do believe that we will have a number of reviews in 2017, and that is quite bit of work. We will review a lot more of our activities than we normally do. We also have the public responsibility project. Those are mostly pilot projects, and as we saw earlier, some of those activities will become permanent activities.

We will complete the implementation of Salesforce.com, and there's another project that was described in the public comment document related to supporting the deployment of IPv6 addresses. So this is the list of the different projects over several years that are included in the budget draft.

We have a very specific issue with this particular slide because there should be numbers right here, and when I look at my file

on my computer, there are numbers. However, as you can see on the screen, they are mission. I'm not quite sure why. We tried on several occasions to solve this technical issue, but we still have technical issues, so I will tell you what those numbers are. just so you know, right here, the number is \$5.4 million. Is that correct, Taryn?

TARYN PRESLEY: \$5.6 million.

XAVIER CALVEZ: I'm sorry. \$5.6 million, and you should be able to see the detail above, but we don't have it on the slide. Anyways, what does this slide show you? It is basically an overall view of the operating functional costs for IANA. Those function costs include direct costs that come from dedicated resources. So just to simplify, those costs are the costs of the department that Elise manages.

On the second line, you also have direct costs, but those are related to activities that are provided by other departments in the organization. For example, the IT department supports the IANA activities or the legal department also supports IANA activities, but those are partial support activities, so all of this

contributes to IANA operations. Those costs should appear on the second line here.

The third line is the cost of support of different activities, such as finances, HR, communications, and so forth. There are three different types of costs within IANA, and they appear right here. The columns that you have here, including this invisible name right here is names, and then we have numbers, protocol parameters, the three operational organizations that IANA functions deliver.

For the first time ever since we submitted the document for public comment, we have a very high level of detail of IANA costs. So what you have here is a summary, an overall view of that, but there are 13 activities basically that we define that are IANA activities that you see here in this table. We detail the costs of the IANA functions for each organization based on those 13 activities. You have an annex that is included in the document that is posted on the website. There is an annex that contains the costs based on those activities and based on all of the clients.

It is the first time – again – that we provide this information, and your comments on the level of detail and on the content of each of those costs items on each of those lines are welcome. We also have details on the activities that you see here. This version is

quite summarized, but you have much more information available to you in the document that was submitted for public comment. Because Jonathan is here, I would like to also say that this level of information goes beyond the request done by the CCWG on IANA costs.

We talked about turnover, expenses, and IANA. How does all of this information come together within our budget? We saw \$132 million for turnover. We saw expenses, \$120 million on the baseline, that is distributed over the different categories: personnel, travel, professional services, and so forth. And then a contingency, which is a non-allocated amount of budget expenses. Those budget expenses have been budgeted, but they have not been allocated to a particular department or activity. It is basically to have an amount for something that has not been planned within the budget. If we don't have this type of activity, those \$5 million will not be spent, so \$5 million right here. Total, \$126 million in the baseline. Then we have our five-six projects, the multi-year, right here. If you add it all up, you end up with a surplus on the baseline, which makes it possible to finance the multi-year projects. So what you see here is a balanced budget. Basically, our income, finances, or expenses.

If we compare this information to 2017, you can also see the comparison with 2016. What you have here is the average headcount for the organization, and you can see how staff

evolves. We will get more information on staff in a minute. The second component of our budget and of our operations is the new gTLD program. It's actually very hard to say this in French because I never quite studied this whole thing in French. Actually, I'm going to move to English. It'll be easier for everyone. Well, for several of us, anyway.

The new gTLD program, this slide is simply showing you at a very high level that we collected \$362 million of fees in 2012, at the inception of the program and that we are planning for the entire duration of the program. This is a view for the total number of years of the program, not just in 2017. A total amount of spend of approximately \$272 million. This includes refunding applications that may have been withdrawn by their applicants, because a fraction of the fee is reimbursable to those applicants who withdraw, and the rest of the costs to simply evaluate the applicants and the applications.

These boxes here simply show you the breakdown of those costs by the period of the program. Between 2012 and 2015, we disbursed approximately \$203 million. Apologies for this not showing up correctly. This is FY16. We are expecting to spend approximately \$28 million in 2016, the same amount actually in 2017 but broken up differently, and remaining cost for FY18 and possibly beyond of approximately \$15 million.

You can see that most of the costs have been incurred during this period, which corresponds – of course as most of you know – to the initial and extended evaluation of the applications, which was the bulk of the work for evaluating the applications. There is obviously a difference between the amount of money that we collected and the amount of evaluation expenses that we are expecting, and this amount of money is going to let us be able to face any unexpected expenses that we could have in the program. That includes among other things risks, and risks include among other things potential litigation if we would have any. Of course, this is difficult to plan and to forecast, and these potential costs are not included in any of these numbers here.

Question from Jonathan.

JONATHAN ROBINSON: Thanks, Xavier. Clearly as an accounting treatment, you segment these funds and you have the \$19 million set aside as ultimately the projected remaining funds. You have two other substantial fund pools, if you like, which we know about. Obviously, one is the reserve fund and the other one is the new gTLD auction proceeds. How do you physically manage those? Do those sort of sit in a single institution in a single co-mingled pot, or do you actually actively manage them in these different areas in addition to your accounting treatment of them?

XAVIER CALVEZ:

Thank you for this question. I'm going to use a slide that partially helps to answer your question, not fully but partially. We actually have four different funds that are physically segregated from each other. One is the operating fund. This is our day-to-day cash, bank account. If you want to know, at HSBC, it's not a secret. HSBC is our bank. We have several accounts for our various operations across the world. This, in theory, should contain approximately three months of operating expenses. Currently, it holds a bit less than that.

Then, we have the reserve funds, which are the ongoing, long term reserves of ICANN for financial security and sustainability. This is the fund from which we have funded so far the IANA stewardship transition expenses, which have been fairly significant. This fund – to answer your specific question about how it is managed – this is money, cash invested with an investment manager, which is SSGA, State Street Global Advisors. This is segregated. We don't touch these reserves without a Board approval.

Then, as I indicated earlier – and I used this representation when I discussed this – the new gTLD program is a very specific program with segregated activities and resources and segregated funds that also support it. At HSBC, we have a

separate bank account for the daily operations of the program, which is a bit of the equivalent of the operating fund here but it's a segregated one. We keep in that bank account about as well three months' worth of expenses on the program, which is between \$5-10 million, more or less.

The rest of the funds, currently approximately \$130 million left, is invested at three investment managers, which we have just consolidated into two investment managers because now we have less money. When we created this, we had three investment managers for \$240 million. As we have spent money, the amount of funds at each manager was smaller and we consolidated the three onto two investment managers.

The fourth fund that you mentioned, auction proceeds, we have used the third manager to invest the auction funds proceeds at that investment manager. It's Northern Trust that is holding that. So four different categories of funds, each held or managed in four separate buckets. Clear?

JONATHAN ROBINSON: Very clear, thank you very much. A small follow-up question: is the brief for the investment managers the same in each case, or do they have the parameters on which they make those investments?

XAVIER CALVEZ:

For the reserve fund – first of all, Jonathan refers to what are the rules and the guidance that the investment managers use to invest those funds – conservative, aggressive – what type of investment. We have two different investment policies that have been designed for the purpose of investing those funds. The reserve fund has a policy that’s fairly conservative – both, by the way, policies are very conservative, but the main difference between the policy applying to the reserve fund and the policy applying to the new gTLD is that the reserve fund has a long term investment horizon.

The new gTLD funds, because it's a finite program –and by the way at the time of its inception we didn't know how long it would last – that policy for those funds has a shorter horizon of investment. Whereas, here we may have securities that have several years of horizon and term, here if you want to be technical about it, we have an average duration constraint for these funds for the investment managers of one year. Average.

We are asking those managers to use fully that one year of average duration simply because it helps expanding a bit the horizon, and the horizon helps expanding a bit the returns because those funds for now are there for maybe a year, two

years, maybe three years, depending upon the usage. Thank you.

Going back to where we were, we looked at the operations, we looked at the new gTLD program. When we add the two together, you have the operations here on the left, the new gTLD program here in the middle, and the total of ICANN together.

Revenue \$160 million, total expenses \$150 million more or less, excess expected of about \$11 million, and the average headcount here is also indicated at 377 headcount. Talking about headcount, this is a graph that provides you with a three-year view of our expected headcounts, starting here in June 2014, which is really July 2014, and that's the beginning of our FY15. Headcount until the end of December is all actual headcount, so this is the number of staff members that we have in the organization at the end of December.

Then we forecast forward the headcount until the end of 2016, which is in June, and then we forecast forward – as part of the budget – the headcount from the beginning of the budgeted FY17, which is July 1, in three and a half months from now, until June 17, which is here.

You can see that our headcount over the past year and a half or two has increased from 276 to 324. We're expecting to finish the fiscal year at 361. This is slightly below the budgeted headcount

for FY16, so we've been hiring at a slightly slower pace than originally budgeted for and planned. The headcount for FY17 is planned to be culminating at 375.

This is for the ICANN operations. The gray part on this graph corresponds to the new gTLD program. You can see that this period, which was still a heavy period of evaluation activity for the program, we had more headcount, and now we have a minimal amount of headcount, which is at the end of the day the lowest amount of resources that we can have to support the program's activity today.

A quick word on the USG transition, implementation, and implementation activities. You know, with great pleasure for the entire community, today we will probably see that all the organizations have approved or endorsed the proposals for the USG transition. This is a lot of work that has occurred and costs that have been incurred as well, but the work is obviously not done. Now we're going to start further. First of all, the NTIA will consider those proposals, so there's work of review, and if the NTIA and the U.S. government accept the proposals, then they will be implemented. So that's one of the activities, implementation.

There's still some work to do relative to transition, notably on bylaw drafting by the CCWG. There will be more accountability

reviews and work during the accountability Work Stream 2 that will be initiated once the end of the Work Stream 1 accountability will appear. We have not yet evaluated the expenses of the USG transition project for FY17, so the numbers that you have seen before do not include any costs for the project as of yet.

We are working with the leaders of the groups that work on this project, CCWG with the ICG and the CWG, to collaboratively develop estimates of costs for those activities. Obviously, that simply results from the activities that will be carried out during FY17, which are currently being designed. Therefore, we don't yet have visibility on what those activities and therefore costs are going to be. We are working over the next 4-6 weeks with the leadership of those groups to develop a work plan and an evaluation of the corresponding costs for that work plan. As soon as that information will be available, it will be submitted for input by the community, and ideally before the end of FY16 so that we can have the board also approving a budget for those expenses by then.

As part of the process for our budget plan, we also look at what the risks and opportunities are for our budget. A risk is basically what could go wrong that may create either more expenses or have less revenue for ICANN, and this is a risk from a more

financial standpoint. What are the risks for the organization from a financial standpoint?

I'll take an example. Here, we mentioned the risk that we have higher costs of implementation or post-transition expenses for the IANA stewardship transition project. Simply, this is a very unique project for which we don't have the experience of having conducted such projects in the past, as an organization, as a community, and therefore there's uncertainty as to the nature or volume of expenses that this project will trigger. So that's a risk. If we don't plan well or we simply don't know about activities that would turn out to be necessary to carry out in FY17, we may have higher expenses than what we planned for. That's a risk.

Another risk would be that we would have a lower amount of registrations that would then in turn generate a lower amount of revenue for ICANN. As you have seen in our earlier part of our presentation, a significant part, about 70% of our revenue is driven by the number of registrations on the domain name system. If the market would have less registration, then ICANN would have also a lesser amount of revenue.

We have quantified this on the basis of the low scenario that you may remember seeing on our revenue slide earlier. We have our best estimate that's at \$132 million, our low scenario at \$126

million. The fraction relative to the number of registrations in that low scenario corresponds to a decrease versus our best scenario of \$1.2 million. That's the risk relative to that, that we're estimating at this stage.

Correlatively, we may have some opportunities as well. If the delegation of the remaining TLDs in the root happen faster and the growth of the number of registrations in the gTLDs is faster than we have planned, we may have some upside to the revenue. This is, again, using the best case scenario that we laid out in the slide that we looked at earlier on our revenue.

Any questions on this? No? That concludes our review of the budget. Again, this is a high level presentation of a much more detailed information that is available on our website for public comment. The document that we described at a high level in these slides actually is a 75-page document, that is the annual budget. The five-year plan is another document of about 50 pages, there is a lot of information.

I wanted to come back on just one thing that I will use this slide for and that Taryn went over earlier. You can see here we had over 340 projects in the budget document that is submitted for public comment. You have the breakdown of our expenses for each of those 340 projects. For each project, we break down the costs between their personnel component, travel and meetings,

professional services, admin, and capital costs. So for every single one of those 340 projects, you have five or six numbers from those categories and in total. Also at the portfolio level, you have the number of FTEs or full-time equivalent number of employees. That is indicated for each of the portfolios.

Let me go back to the next steps. I'll go back to French, because there are no numbers here. As far as right now, March 10, one of the activities that we have that I mentioned earlier is that we need to produce a cost estimate for the USG transition. This is something that we will do, as I mentioned, with the leaders of each group. This is something that we will try to put together between the end of March and the beginning of April.

Once the public comment period that will end on April 30, we will then answer the questions, the comments that will have been provided during that public comment period. The response period will take about a month, and we will have a number of phone calls, during which we will talk about the different comments submitted by each organization in order to answer them in a more detailed and adequate manner.

Once we have answered those comments or questions, for each question we will detail our answer and we will submit a draft to the Board so that the Board has a good understanding of the comments that have been submitted as well as the response

that we will bring to each comment before taking into account the budget and asking for approval.

In the end, we will have a final budget that will be submitted for approval to the board on June 30, 2016. It is the last day that we can get the approval, because on July 1, we need the budget. So on June 30, it is a Thursday, the Board will actually meet on Thursday at the end of Meeting B. So what you have is last year's timing, and here is this year's timeline.

Are there any questions on the next steps? Jonathan?

JONATHAN ROBINSON: Thank you, Xavier. I have a question about surplus or deficit and how you might deal with that. It's not specifically about the next steps, so are you happy to take the question?

XAVIER CALVEZ: Absolutely.

JONATHAN ROBINSON: Okay, thank you. We saw that for very specific reasons, there was a deficit and the requirement to use reserve funds, authorized by the Board of course, in the past financial year. We also saw that in your forecast, you talked about a range. Naturally, there's some kind of sensitivity applied, and the

budget may vary depending on certain factors. How will you deal with either a deficit or a surplus in the next financial year?

Could you just explain what the process will be to the extent that you make a deficit, how you will deal with that? We also heard at some point earlier about ICANN having to make cost cuts in a previous year associated with a projected deficit. So it would be good to know how you'll deal with either a surplus or a deficit. Where will that come from, or where will that go to in the forthcoming financial year? Thank you.

XAVIER CALVEZ:

Thank you, Jonathan. I'll go back to English. I'll take the case of a possible deficit first. A deficit would result from simply higher expenses than revenue. It could be driven either because expenses are higher than planned and the revenue is the same as planned or that revenue is lower than planned and expenses are as planned.

First of all, we do everything we can to avoid a deficit throughout the year. We monitor our financial statements on a monthly basis, and we look at our revenue for example on a monthly basis to ensure that we understand how it tracks against our plan.

Should the revenue appear to be lower for example than expenses, we would try to curb our expenses so that we avoid finishing the year with a deficit. We have done that in FY15 for example, where our revenue turned out to be lower than planned by \$10 million and we curbed our expenses by \$12 million, which resulted instead of a deficit in a small excess. But we're talking about a case where there would be possibly a deficit at the end of the year.

That deficit would be something that the Board Finance Committee and the Board would consider and would determine that either that deficit would be funded through the operating fund, which is happening mechanically simply because expenses are disbursed from the operating fund. Revenue comes in the operating fund, and the net of the two would be leading the operating fund to decrease. Then, the Board has a decision to make either to replenish the operating fund with taking money away from the reserve fund or simply not do that if it is considered that the operating fund is at a level that's sufficient. I indicated earlier that the operating fund is supposed to be at a level of approximately three months of operating expenses.

So that would be a deficit, and presumably of course the reserve fund would allow to fund that deficit, but it takes a Board decision to do that. That is the case of a deficit.

If there would be a surplus – which is the other question that you asked – if there would be a surplus, presumably that surplus would have increased the level of the operating fund as revenue comes in at a higher rate than expenses come out. Then, same process, the Board – and the Board Finance Committee first and then would make a recommendation to the Board to possibly allocate some of that increase of the operating fund to the reserve fund for long-term savings, basically. That would also take a Board decision, and that would be the natural outcome of a possible excess.

You could – and this is a situation we're in now, where our current level of the operating fund is lower than three months of operating expenses, and that if we would generate an excess, it is a possible scenario that the Board Finance Committee and the Board would say we're going to let that excess help increase the operating fund to bring it to the target level of three months of operating expenses. But that's just a scenario. It could also be that the Board Finance Committee decides that we should simply put that money in reserves.

Does that help? Okay, thank you. We had a question over here. Hold on, let me bring you the mic. And if you can, state your name for the record, please.

HAJER ABDELKEFI: My name is Hajer Abdelkefi. I am a member of the Lawyers Council in Tunis. I have three questions to ask, if I may. First of all, don't you think that expenses are quite high, which reflects the ability of ICANN to manage those projects? That is the first question.

My second question has to do with the reserve fund. How far can those reserves actually get us? Don't you think that those reserve funds could be used for projects?

Third question, it has to do with the documents. Are the expenses documents accessible to the community?

And if I may add one more thing, as far as feeding the budget, I understand that those are projections, but typically you have a plan A, a plan B, and you have projections, so I would just like to have your opinion on that.

XAVIER CALVEZ: I will respond in French, because the question was made in French. Thank you for your question, and if I don't remember all four, please help me out.

As far as the first question, are the documents available? That's an easy question to answer. If you go on our website, you have the public comments section where you can find a link. I will go ahead and post the link right here. There is a link to all of the

documents, there is a particular section. It is in the appendix, I believe. Here you have the different links to all of the documents, and they are all available for the community and you can actually submit public comments. You don't have to learn them by heart, those links. You can go on ICANN.org, open public comments, and then at the very bottom you have draft FY17 operating plan and budget. This is where you can find all of the documents that you need.

Your first question had to do as far as the expenses and how high they are. Yes, it is true, expenses have increased over the past few years, and that reflects all of the activities of the organization of course but also of the entire community. Basically, it reflects the increase of activities, especially as far as the New gTLD Program is concerned. We went from 18 operational TLDs to almost 1,000 of them. As you can imagine, it represents a huge growth of activities as well as a lot more complexity of the activities, but at the same time, the domain name market increased overall. There is also more complexity on the market as far as privacy is concerned, as far as protection of the users, so there is more activity on that level as well.

Another factor of growth that needs to be taken into consideration is the globalization of ICANN. This was something that was critical for the organization, actually, because we needed to represent all users over the entire globe, so we now

have presence over all of the continents. We have three hubs: in Los Angeles for the American North and South part of the world, Istanbul for Middle East and Africa, and then Singapore for the Asia Pacific region. We also have different engagement centers in Washington, DC; in Brussels; in Geneva; in Switzerland; and one more in Beijing. As you know, in three weeks, we will have one in Nairobi. So that other component also contributed to the increase in the activities of ICANN. That was for the first question.

You had a second question as far as the reserves and whether or not they could be used or allocated towards projects. Excuse me, that's right. ICANN's financing policy requires that the reserve fund gets to an equivalent of 12 months of operational activities. What we have here is about \$132 million. As far as today, we are at \$86 million at the beginning of the year.

We are now at a level of \$72 million, because we used some of those reserves in order to face the expenses related to the IANA transition, so those reserves have actually decreased. We still have a large gap as far as our target, our objective of 12 months, which is \$132 million. We need to get to \$132 million, so that's how you explain the difference.

Can we use those reserves towards projects? Yes, but it would be an exception. We have the immediate example that we have

currently for the IANA transition. This was not something that we had planned. It was a huge amount in terms of costs, and we could not cover the costs of that project with our annual revenue, so we did use our reserve funds.

This is not something that we can do permanently because at one point you get to a point where you don't have enough. Those reserves are basically a type of insurance so that we can continue to operate in a safe, sustainable manner, so it is very important for ICANN to have enough in that reserve fund because that is how we enable ICANN to pursue its mission and the community to pursue its mission.

So that reserve fund is not intended to be used for specific projects. It is possible, but it would be an exception in an emergency situation. This is something that we use for a rainy day, as we say, just in case. So those reserve funds are not necessarily intended to be used for specific projects; however, it can be the case in an emergency or if we have an imperative need.

Does that help? There was one more question that I forgot.

Right, I'm not quite sure I understand the question. I will try to answer, and you can tell me whether or not I answered accurately. Our budget is an estimation. It is a projection in the future, and it is the result of different plans and actions that we

determined for the future. We then allocated an estimate as far as resources and cost, and so this information is basically a projection. An information that is a projection is basically based on a hypothesis that reflects a quantification of activities, and you're right, it could be inaccurate.

So how can we deal with that? First of all, you have a contingency plan, and I showed that earlier. It is a little bit less than \$5 million that have not been allocated to anything. Quite simply, if there are expenses that we didn't think about, we have up to \$5 million to cover them, so that is one of the components that is helpful. What we do every day, so to speak, or at least every month, is that we close our accounts, so we see how monthly activities compares to our budget.

Every quarter, we draft a new estimate. So we look at the whole entire fiscal year, and we draft a new estimate compared to the budget. Of course, this estimate is based on the knowledge that we have at that point on activities, on revenues, and so forth. For example, for FY17 that starts in July, we will draft an estimate around November based on the activities from the previous month. We try to see whether there are differences between what truly happened and what we had thought would happen, and then we estimate the year, we project the rest of the year in a similar manner. So that is how we manage the update on our

projections, and it allows us to tell whether or not we are on target.

Just as an addition, if it can help answer your question and if we take aside 2014 which was different, ICANN expenses were basically always below what was planned, so we basically always spent less than what was planned. I don't know if it will be the case for the future, but I wanted to give you this information as well.

Did I answer your question? Thank you very much.

UNIDENTIFIED FEMALE: Ten minutes left.

XAVIER CALVEZ: Are there other questions on any of the topics that we talked about or any other topics in general as far as ICANN activities and so forth? Are there online questions as well? Are there questions in the room? Going once, going twice. Alright, we're done.

Thank you very much for your participation, thank you for your future comments. I do hope that you go on our website and look at the documents, and I hope that you do comment because the

information is available because we want your comments. We would be very happy to receive them. Thank you very much.

RUDI VANSNICK:

Not a question, I would like to congratulate the finance team with the work they are doing. It's very comprehensive. Chuck, myself, and a few other members of the community had a meeting on Sunday evening where we got all these details for about three hours and a half. Chuck remembers that also. We have that almost once a year, and I think it's very important that you come to these kind of meetings to help us align where there is a need for improvement. It's the community who can direct this process, and we are so thankful that the finance team is able to produce – almost on request – all the details that we need to make up our mind, so thank you again.

XAVIER CALVEZ:

Thank you, Rudi, and to be clear, what we provide is as a result of the feedback that we receive from the community and the guidance that the community has provided us to indicate what is useful, what is helpful. We just try to walk through that road laid out by all of you. Your participation of course is key because there's nothing that happens – we can't communicate with just one participant. You need two people to communicate, and the community is always there. So thank you for that, and we

definitely need your comments and your continued input and your improvement. Chuck?

CHUCK GOMES:

For those of you that are new to this, the number of improvements that have been made in terms of the amount of detail that is provided in this process are just fantastic. The last few years, the things that have been added by Xavier and his great team and of course supported by the finance committee of the Board is really great. What that means is you have a ton of detail to look through when you go through this, but that's really the only way we can provide good feedback. They're giving us a pretty good, close to two months to do it. So I want to compliment Xavier and his team for what they've done over the last few years and what we have to work with. For those that are new to it, we didn't always have this much information, so it's very beneficial to us to do a careful analysis of the budget. Thank you.

XAVIER CALVEZ:

Thank you, Chuck, and as Chuck indicated, this is a critical element of the multi-stakeholder model and of our mechanisms to be accountable as a community is to look at the resources that we all manage together and to ensure that we have a sustainability in the way we manage our expenses and that we

do use that information to plan for our work together and make the right decisions as a community on what we do and don't do and what we should do and what we shouldn't do. So your input is key.

There has been a continued participation of key members of the communities, like Rudi and Chuck, who have been very involved in the process for a very long time. Their knowledge and expertise is very useful obviously for the staff to continue working through supporting the needs of the community in terms of planning and financial and information. Of course, this is a journey, this is not a destination. It never stops.

Every year – Taryn indicated this – we do what we call a post mortem, but the point what happened well but even more importantly, what can we do more? What's the next thing that we can do to help provide more information and more relevant information for the community? So thank you for that, thank you for your continued participation in that respect.

Rudi mentioned the ad-hoc budget working group that we have. If you have any interest in either the planning or the finances of ICANN, we maintain an e-mail list that lets you obtain, on an ongoing basis, information about what is happening of the budget development process. There are no obligations resulting from being on that distribution list, so if you want to be on it,

please provide us with your e-mail address. You can e-mail me at xavier.calvez@icann.org. Feel free to send me your e-mail address, you will be added to the list and you will receive e-mails systematically. Merci beaucoup. Bonne journée.

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