
MARRAKECH – SOP Working Group Meeting [C]
Sunday, March 06, 2016 – 13:30 to 15:00 WET
ICANN55 | Marrakech, Morocco

GIOVANNI SEPPIA: Reality shows with those who are more persistent in the job. Thank you for coming. Thank you for attending this session of the ccNSO SOP Working Group here in Marrakech. Thank you so much to the ccNSO Secretariat for arranging the meeting today. I would like to start with a short tour de table. We all know each other, but maybe we don't remember the name. We have one remote participant, who is Lesley. Again, welcome, Lesley, and thank you for attending remotely.

If Philip, you'd like to start.

PHILIP DU BOIS: Good afternoon. My name is Philip from DNS Belgium, the ccTLD in Belgium, and I'm the general manager.

DEBBIE MONAHAN: Debbie Monahan of .nz, Domain Name Commissioner.

ANDREAS MUSIELAK: Hello. Andreas from .de, from DENIC. I'm CEO of DENIC.

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TARYN PRESLEY: Taryn Presley, ICANN staff.

XAVIER CALVEZ: Xavier Calvez, ICANN CFO.

UNIDENTIFIED MALE: [inaudible]

BART BOSWINKEL: Bart Boswinkel, ICANN staff.

PAUL SZYNDLER: Paul Szyndler, auDA.

GIOVANNI SEPPIA: And we have, again, Lesley connected remotely. Lesley, can you hear as well?

LESLEY COWLEY: I can. Could I ask if the Adobe Room could be opened as well, though? Lesley Cowley from ccNSO Council.

GIOVANNI SEPPIA:

Perfect. Thank you so much, Lesley. We have quite a full agenda, with quite a lot of updates. The first update is an update from Xavier. I would suggest that there are three main points in the agenda, which are an update on the fiscal year 16, and then a point regarding the ICANN assessment of the hubs and engagement center cost. And also an update on the five year plan and the fiscal year 17, which has been posted yesterday for the public comment, which, if I'm not mistaken, will end on the [inaudible] the public comment [inaudible].

I would suggest that we merge the first point and the third point, so an update on the fiscal year 16, and a presentation on the fiscal year 17, which will include an overview of the IANA transition, and also the accountability process cost.

I'd like to leave the floor to Xavier for this presentation. Thank you, Xavier.

XAVIER CALVEZ:

Thank you, Giovanni. As Giovanni indicated, we have in the document that I'm suggesting to look at, the FY16 financial update, as well as the FY17 budget. We will also have in this presentation a certain amount of information on the IANA functions costs. To do that, I actually suggest we look at the document that's published, which will help you also become a

bit more familiar with that document. We'll walk through the content of that document, and once we will have walked through it, then we can have questions and answers, if that makes sense.

Lesley, do you also see the screen that we're sharing right now, which currently is on the homepage of ICANN.org?

LESLEY COWLEY: No, I don't. I'm just getting to. Is that the link you sent out earlier, Xavier?

XAVIER CALVEZ: Yes, but we have it in the Adobe Room.

LESLEY COWLEY: The Adobe Room's not live for this meeting.

XAVIER CALVEZ: Okay. Sorry, thank you. Yes, it's the document, and I will mention the page numbers as we go through. It's the document that I sent the link of earlier today for tonight's meeting. That's on ICANN.org in the public comments section for the Draft FY17 Operating Plan and Budget and Five Year Operating Plan.

LESLEY COWLEY: Thank you.

XAVIER CALVEZ: Thank you. I'm walking through the page with everyone here. We have here the Draft ICANN FY17 Operating Plan and Budget, and the Five Year Operating Plan update posted yesterday.

As Giovanni indicated, we have a public comment period lasting 56 days until April 30. That's the longest public comment period that we've had on the operating plan and budget, as far as I know. When we log in here, you have the standard display of a public comment process. I'm scrolling down to the bottom to the relevant resources. I will click, Lesley, on the second document in the section three, which is called the Draft FY17 Operating Plan and Budget.

I just want to mention that the first document is the Draft Five Year Operating Plan that's been updated as FY17, which is the year that we're planning for is year 2 of that Five Year Operating Plan. That update, in just a few words, has been to look at what the FY16 or year 1 achievements are expected to be, adjust accordingly FY17 or year 2, to adjust or re-plan basically the

activities of year 2 according to year 1, and then recast as necessary year 3, 4, and 5 of that Five Year Operating Plan according to the achievement or change in timing possibly of year 1 and year 2. That's the exercise that's being done. At the beginning of that document, you have a list of the changes that have been made from last year's version to simply a bit the exercise of looking at it.

That's the first document that I described in words. I'm now going into the second document, which is the Draft FY17 Operating Plan and Budget.

Passing the first page, the table of contents here, I will zoom in a bit because Philip doesn't have his glasses. This is the table of contents. We start with a section on the ICANN operations. Then we have created a specific section on the IANA stewardship transition. We will spend a bit of time on that. This is new. We have, then, a section on the new gTLD program. That's the section five. Then the total ICANN overview that adds together the operations and the new gTLD program.

The second part of the document, which is here displayed in detail on the screen and on the agenda page, is the section seven, which has the detailed operating plan for FY17. The

description of each of the portfolios, as a reminder the structure of objectives, goals, and portfolios. We describe here all of the portfolios, about 55, 58, over the about for the 40 or 50 pages, starting on page 34. I will not go, of course, into details of any of those. I will just show you one page so that you can see how it's structured. Then all the portfolios' description are structured in the same fashion.

I will skip the introduction. You will be able to see that as you review the document. I am now, Lesley, on page seven. A quick reminder of the planning process. ICANN has a vision and mission statement that leads to developing a strategic plan. This strategic plan is supported by a five year operating plan, which I mentioned a little bit earlier. This five year operating plan leads to developing, on an annual basis, a one year operating plan and the corresponding budget. This is where we are here today in the update of the operating plan and budget for the next fiscal year.

Of course, once planned, then we walk through to the reporting progress and achievements after the plan and as we go through the realization of that plan throughout the year.

Moving on quickly, the structure of the budget data, as a reminder – I'm on slide eight, Lesley – we have, on the left hand side, the ICANN operations, on the right hand side, in orange, the

new gTLD program. This completes the overall ICANN picture. We have highlighted a little bit here in these orange boxes that are a part of the ICANN operations where the PTI will find itself in FY17 upon implementation. It's part of the ICANN operations, and we will focus on what's contained in it a little bit later in section four.

I'll spend a little bit of time on this slide nine, where we have both FY16 and FY17 numbers. I'll start with FY16. You can see that we're projecting. This is not the budget for 16. This is the forecast, so it's a more recent version of our estimates for FY16.

I will remind everyone that both the revenue and the baseline expenses planned for 16, we're at the \$113 million both balanced. Revenue equal expenses at \$113 million. You can see that our revenue projected is significantly higher at \$121 million, and you'll see why. Our expenses are below budget by about \$4 million. We're in a good place from a financial management standpoint with revenue above and expenses below. Therefore, we have an excess that comes out of the forecast of 16, which we will obviously monitor and likely confirm throughout the remainder of the fiscal year until the end of June. We have also, of course, the initiatives or multi-year projects that, added together with the baseline, lead to an excess expected of approximately \$6 million. This whole picture, this whole slide,

excludes entirely any IANA stewardship transition-related expenses.

For FY17, revenues are expected to be in the baseline of \$132 million. We are also expecting to generate an excess from a baseline standpoint of approximately \$6 million. We have multiyear projects also approximately \$6 million, leading to a balanced budget for FY17 planned for. An increase in revenue of about \$12 million, an increase in expenses of about \$17 million, of which, just to be clear to everyone, an increase of the contingency, which is the unallocated portion of the budgeted expenses from \$1.225 million.

Just as a reminder on that specific point, we target to have on an ongoing basis about 5% of the operating expenses as contingency, to allow for either changes in estimates or unknown elements. For example, the contingencies where we use funds in case we have litigation. We don't budget for litigation costs. We use the contingency if the litigation appears and costs are required.

Moving on, this page ten, I will not be going over, is simply the same information, but broken out by function of ICANN rather than by categories of cost. Each line here is a department or a

set of departments within ICANN. Again, I will not go over this detail.

The revenue. This page 11 and the page 12 that follows are the assumptions that we have used to forecast the revenue. Legacy TLDs, a very basic, straightforward, historical average growth rate of the New TLDs transactions. Our best estimate is at 2.2%. The most recent information that we have for actual is a bit higher than that in growth rates over the past six months that we felt that it was reasonable to stay as conservative as is reasonable on this, and to go with the historical average of 2.2% growth.

For those of you who know and used to it, we try to formulate a low and high scenario on that revenue. New TLDs, we have the fixed fee directly driven by the number of TLDs in the root, each generating \$25,000 of fixed fee. That's the next section here. We do an applicant by applicant review of the timing of delegation to the root to come up with this estimate. It's a very detailed estimated approach.

Transaction-based fees for the new TLDs. I'll point out simply to one of the assumptions is that we are assuming a renewal rate of 35%, which is relatively low, or high, depending on how we look at it. The TLDs that have offered names for free in the first year,

we know what the renewal rates of that is. It's between 0% and 10%. There's not been that many of those, but there's been some, and of course, those are significant in the first year of transactions because they were for free. We think 35% is the low end. The 50% is the average of return, but we have also estimated at 25% those TLDs that have offered free registrations.

Next, second page, page 12, registrar accreditation section. As opposed to this year, where we have a lot of new accreditation of registrars ... We have a lot of applications this year, about 700 applications for new registrars this year, which has driven, obviously, one-time revenue for ICANN, but also an annual accreditation fee for ICANN. Next year, we're assuming a very basic, low amount of new accreditation of 40 new applicants.

We are also assuming that the recent increases in new registrars resulting from those applications is actually not going to continue and not only not going to continue, but also that the number of registrars will decrease to a 1,500, 1,600 level, versus the 2,200 level that we now have as a result of the application by 700 registrars. We are thinking that is possible that we go back to a lower level of number of registrars, which is the level of nine months ago. That's the assumption that we're taking. By the way, that level was resulting from about 600 applications from

new registrars, because a year and a half ago, we were at 1,000 registrars. Our assumption is basically in the middle of those two reference points of 1,000 registrars 18 months ago, 2,200 registrars today. We're shooting in the middle is basically the point.

Debbie?

DEBBIE MONAHAN:

What's the current rate of registrars dropping off? Because once registrars come into us, we don't tend to lose them. They might rationalize or whatever, but they don't tend to be lost.

XAVIER CALVEZ:

Our rate of losing registrars is zero right now. We're not losing registrars right now. We are simply anticipating that the number of accreditation that's been appearing, or the number of applications that has been received recently is for drop catching, basically. The economics of that may not stay for a long time, and if that's the case, then the families of registrars are going to reduce quickly.

This is anticipating that that could appear. Obviously, we felt that we wanted to be on the safer side of that type of things happening, so we planned for some of it. It's definitely a big

assumption. We could have assumed that the growth would continue. We could have assumed that the growth stops, but that we remain at the level where we're at today. It is a position that we're taking, but on the safe side from a revenue generation standpoint for ICANN.

ANDREAS MUSIELAK: Another question. Andreas from DENIC. What we can see at DENIC is that we have a consolidation trend among our registrars. Have you considered this trend in your figures?

XAVIER CALVEZ: That's part of the reason why we're reducing the number from 2,200 to 1,500. That's exactly the reason. Thank you.

The revenue is also inclusive, as you've seen earlier, of the new gTLD program fees, which is simply the realm that we are still currently in of the new gTLDs that is coming to an end. Not necessarily as fast as we would like, but to an end nonetheless. These assumptions lead to these numbers. Lesley, I'm on slide 13. Best estimates of revenue of \$132 million. The growth comes essentially from, of course, the new gTLD that increases the number of new TLDs in the root increases that drive the registry fee that goes from \$21 million to \$30 million here. The number of

transactions, as we've discussed, also increases, of course, across registries and registrars.

As we said, we are taking a reduced position on the registrar accreditation that totals to \$10 million next year versus the \$15 million that we're expecting for this year.

That's it for revenue. Expenses or questions on revenue? Yeah, Mathieu?

MATHIEU WEILL:

Thank you, Xavier. Just a question on the model you've been using for the gTLD revenue prediction and the assumptions that you've found based on the assumption that you took from the existing data from the gTLD. Is that something that's going to be made available, or is that something that you are going to protect as key intellectual property from ICANN?

XAVIER CALVEZ:

I don't think it's key intellectual property. You're talking about the volume of transactions per TLD or per type of TLD?

MATHIEU WEILL:

Yeah, per month and so on. That's a very good benchmark and reference for the industry players.

XAVIER CALVEZ:

I don't have that data available now, but the model of revenue forecasts we have since last year. I can't remember if you were present in the budget workshop that we had last year. Cyrus Namazi is leading the DNS Industry Group at ICANN, and Mike Zupke and Krista Papac are the ones who basically build this model now. It's a very detailed model, and it has those assumptions.

What I can do is I can ask them. I'm hoping Mike will come tonight to the workshop, but I know not everyone will be available then. We're going to discuss in more detail those assumptions, but what I will try to do is discuss with Mike a way to extract that information on the assumptions of transactions by TLD. He's tried to look at demographics in the TLDs of the brands, the generics and so on.

UNIDENTIFIED MALE: [inaudible] just to connect.

XAVIER CALVEZ: Yeah, that will be great.

UNIDENTIFIED MALE: I don't want to delay the conversation here on that.

XAVIER CALVEZ: Okay, will do. Any other questions on revenue?

Okay. Moving on to expenses. We have here on page 14 for Lesley a breakdown of the expense growth. We'll simply highlight here that we're breaking it down in two different groups of variances. The ones on the left that are basically appearing between the FY16 baseline and what we're calling the FY16 new baseline is simply to reflect the concept that some of the projects that we carry out won't [be a completed translate into] an ongoing set of costs. A very typical example is an application implementation. When you implement salesforce.com, for example, as we have done, we have an upfront cost of the implementation cost, but then once the application is live, then we have ongoing costs from that application that continue "forever." These variances year on year, it's an increase in expenses. I'm just trying to explain the context and the drivers for those increases are resulting from projects completed that have become permanent [inaudible] the organization.

Notably, from an IP standpoint, we have salesforce.com and a couple other applications that drive ongoing costs. We have a

number of programs from public responsibility, the public responsibility group that were pilots in FY16 that are now conducted on an ongoing basis for FY17. For example, we've expanded the number of fellows that come to ICANN meetings. The next gen group, as well. Those are now ongoing.

The other group of variances are what I would call the organic growth, where the full year impact of the hires into 17, as well as the ongoing standard compensation increase, as well as promotion of the staff. Net of attrition, of course, is driving the growth of the expenses. We have, from memory, 19 hirings in FY17 that drive also an increase in the personnel cost. We have a certain amount of increases in cost from the IANA PTI function, and that's the extent of the rest of the organic growth.

Slide 15 is just providing a bit more comments on those variances. Capital is there as well for you to look at on slide 16. I'm not going to stop there. The description of the multiyear projects here. That totaled, if you remember, to \$6 million that we saw on the earlier part of the presentation. It's there for you to look at. I will not stop here.

Risks and opportunities. A risk is defined as a potential higher expense or lower revenue. An opportunity is defined as the opposite. One area that we know that I want to simply highlight

that we know is an area of concern from a planning standpoint is the potential higher cost than we are planning for, relative to the implementation and the post-transition expenses.

This is not about the current project of IANA stewardship transition. It's about when we implement the PTI, are there going to be costs that we just simply have not planned for? As we are currently developing the implementation plan, we know we don't have a full view of that yet. In two months from now, we may find ourselves with costs that are different or new. I know there are some very current discussions happening on the structure of the role of various [inaudible] in ICANN, for example, that may lead to costs that I just don't know what they are today.

This is an important area of risk. Hopefully it will not have a huge amount of impact, and hopefully we will have before we finalize the budget in June, we will have a lot more visibility on that and the ability to integrate that in the budget, which is logistically a bit challenging, but of course we should do if we can.

UNIDENTIFIED MALE:

Just to confirm that this, at least on the CCWG Accountability side, it's clearly highlighted as an action item for us to provide an estimate in time for integration, and also to mention that the

addition of this risk table is a welcome addition to the framework. You actually made me laugh with the opportunity number three, ability to prioritize qualified as low probability. I found it quite funny. I like it. It's the first time the draft budget makes me laugh somehow, so congratulations. It's an Easter egg, I know.

XAVIER CALVEZ:

You should look at the one from last year because we did have the risks/opportunities last year, as well. I think we actually said something fairly similar last year. We want to make you laugh every year.

Jokes aside, with the amount of activity that there is on everyone's plate, which I think everyone recognizes, between the implementation of the stewardship transition with the PTI, the accountability mechanisms and the accountability work that will result from implementing new mechanisms, we're all going to be very busy over the next 18 months. This is even leaving aside the activity that we're going to need to finish the new gTLD program. There's the auction proceeds that will generate a working group and a lot of activity, as well. The bottom line is there's a lot of important things on the plate, which makes the prioritization more challenging.

It's nearly sarcastic to say that we even have an opportunity to prioritize because I think the prioritization is going to be about what we have to drop because we can't do it with still a very full plate and still not necessarily the ability to reduce the expenses as a result. When I look at the reviews, for example, the standard schedule of reviews on the basis of the cycle of reviews requirements means that in the third fiscal quarter of FY17, January through March, we have nine reviews occurring at the same time, which we've never done and will simply maybe not happen, especially [inaudible].

UNIDENTIFIED MALE: [inaudible] three to five years, as recommended by a certain group.

XAVIER CALVEZ: The implementation of that will require a certain amount of planning, of course. Hopefully, effectively the new accountability mechanisms will help rescheduling this plan, but there's another risk. If you look at the risk, the second from the bottom is high, that one. Please, Lesley.

LESLEY COWLEY:

Thanks, Xavier. Xavier, as you know, I've been looking at these plans and projections for many years now. I have to say that you and your team have made great, great progress. For the first time, I'm seeing comprehensive figures that I know have some solid work behind them. That probably wasn't the case before, so well done because I think that is due.

This is my last SOP meeting, so as one might expect, I'm going to make a comment about controlling costs and the link to the strategic plan. Although I can see that the whole financial forecast thing and financial control has come on hugely, I don't feel that we've yet kept pace with these unexpected things that happen to help us to drive costs down. I still feel that as an organization, ICANN seems to go into year on year without the recognition that actually we do need to make some choices as to where money can be spent a bit more. I think if this community can help you with that work, I'm sure we would be keen to. I don't hear a great deal around expense reduction and so on, and yet I do hear a lot about unexpected expenses or maybe expenses we weren't quite aware of the size of. The IANA transition is an example of that. Thanks.

XAVIER CALVEZ:

Thank you, Lesley. I was very surprised to hear you speak about cost control. You're definitely right. We are, as you can see, one thing that we wanted to do but didn't get a chance to finalize on time was to try to put a five year view of the revenue and expenses of ICANN, which would simply make your point a bit more explicit. Revenue has increased, but the expenses of the organization have increased. The amount of activity that the organization tries to handle has increased a lot, and obviously, in many instances, for simply the benefit of quality in simply tackling things that we were not before.

The point is that we need to be able to contain our expenses, but moreover, the activities that we carry out, which then, of course, generate the expenses. The expenses, the level is simply the consequence of carrying out a volume of activity that is simply very extensive, very demanding. The general concern that I have, which I think makes even more so significant your point about prioritization and involvement in the community on prioritization is that the new era of accountability that's in front of us is going to put more pressure on expenses, not less, in my views. I'm sure a lot share that view. It's just making more even required the point of prioritizing activities.

Yes, the involvement in the community on prioritizing the activity of the organization is most welcome by me and by many

in the staff. This is a challenging exercise. We hear from the Board, from everywhere more work to do and not a lot dropping off. Though at the same time, the Board, for example, is very conscious of increasing resources and seeing expenses increase and so on. We all feel that we should contain that, but when we look at each activity one by one, what do we drop off? There's not a lot of candidates.

That's putting completely separately aside what the ongoing activity that we have internally of trying to cut costs and reduce cost of the activities that are carried out. We do RFPs. We do cost-cutting exercises and so on. There's just standard healthy behavior, but it's not taking away work. It's trying to reduce the costs associated with the work that we have.

How do we reduce the scope of work that we have so that we can contain expenses and not possibly reduce expenses is something that we've not yet mastered, for sure. I believe the contribution of the community in trying to make that happen is very significant and very welcome, of course.

GIOVANNI SEPPIA:

I think we spoke briefly. I don't remember if it was this morning or over lunch, but one of the points this working group has highlighted several times is how to make sure that there's a

literacy or culture of budget production and cost containment at staff level. We discussed that and submitted that as a point several times over the years.

I think I would appreciate to hear if there's progress against this point because again, we have underlined several times that there is a need for ICANN staff to come up with a culture for again, not only budget production, but also cost optimization, cost reduction. The fact that I hear from you that whenever it comes to projects, there are little if no candidates to drop certain activities or to reduce costs, it's a very important exercise for a company. I think ICANN has started to do that but probably should do more.

XAVIER CALVEZ:

Thank you. Let me be more explicit about that comment. I'm happy to look at the strategy plan with anyone in the community and start looking at the list and say, "What do we stop doing? Do we stop WHOIS? Do we stop IDNs? You tell me." I think that's the exercise that's challenging for all of us. When I say there's not a lot of candidates, it's not because the staff is coming short of ideas. It's because as a community, our strategic objectives are including a number of activities that we need to find ways to either not do or reschedule or do differently.

I think it's a collective exercise, and I think the input of this group among others ... This group has a lot of value to add in this conversation on how do we prioritize the activities of the organization for the need to do it, which you are pointing out, this group has spelled out many times. How do we do it and do we effectively go about it, I will welcome very much. I know the rest of the organization would as well.

I think Mathieu has a comment. Before Mathieu jumps in, thank you, Lesley, for your compliments on the efforts that the entire staff has delivered relative to planning and more information in the budget. It's been a strong collective effort, and Taryn and I here are only the visible part of that effort, but it's a staff-wide effort. Thank you. Mathieu?

MATHIEU WEILL: Thank you, Xavier. We've been consistent saying that there are too many projects. I think the document says 300 and something projects going on. That's about the headcount of ICANN. On average, there's one project per person at ICANN. Now, having said that, I know how closing projects is difficult. It's even more difficult within ICANN because it's volunteer-driven projects and volunteers have gotten involved. With staff, when it's thoroughly internal, we say, "No, your project is terminated. You go to

another project.” It’s difficult, but you can have that with your staff. With volunteers, it’s extremely difficult.

I’m totally open to starting a discussion about how we can do that more efficiently. I know the Board does not feel it’s empowered to do so. Yes, it’s a tricky situation, but there are ways. There are ways on being more selective before launching a project with volunteer time. That is where I think the community and the Board must work together to cut costs at ICANN because there are many, many, too many projects. Some of them will have to be terminated at some point.

XAVIER CALVEZ: I cannot agree more. Leonid?

LEONID TODOROV: Thank you, Xavier. I would certainly agree with what Giovanni and Mathieu said. I have just a very quick comment. Some of us came from the economists that have been benefiting greatly from windfall profits for a while. At least Paul is busy clicking there on his computer, but he would certainly agree with me.

The boom and bust cycle in subsidizations would, of course, affect our economies in the longer run, as you know. I’m pretty much afraid that what we’ve observed recently, and that was

the boom of those new gTLDs, it certainly had its effect on the ICANN in terms of, for example, the payroll. We could see that basically payroll accounts for half of the ICANN's budget, at least for year 2017.

That's why I concur with what Mathieu said. My concern is that for the next round of new gTLDs, ICANN will be compelled to start that new round of new gTLDs even if there is no need, for example, or no imperative to do that simply because that windfall situation and the arise of the increase of the staff and the payroll would just compel ICANN to switch to that extensive track. Expanding just because you need to justify the number of your staff and the budget which is needed to seed up so many mouths, if you know what I mean.

In other words, whatever staff you have now will certainly affect your operations because you will have to do more and more rounds of new gTLDs.

GIOVANNI SEPPIA:

Thank you, Leonid. I just want to say something because I think it's very important. Here we have Xavier and Taryn, and they're doing a tremendous job to compile this budget, and it's based on over 300 projects and millions of input they have received. It

is my understanding that there is a lot of manual work they have to do to make sure that everything fits. It's really a huge job.

Some of our comments, they are now addressing the strategy. Both Xavier and Taryn, they are sort of registry of what comes from the organization, and they are recording the wishes, the needs of the different departments.

I think that probably in the future for this working group, what could be good is that if we, when looking at the fiscal year 17 operating plan and budget, if we spot some areas where we see that we've got the numbers but behind the numbers there's not really a sound strategy, maybe to invite the department in charge of that part of the strategy to come here and speak to us and explain a bit more to us. That will, I think will help us all to understand the figures that Xavier and Taryn have compiled to achieve this budget document.

I think that could be a nice, good exercise in the future if possible because again, this is a strategy [inaudible] working group. We have been having as our special and super welcome guests, Xavier and Taryn, but I think that it's [inaudible] to have also somebody representing the strategy that comes from a financial level from Xavier and Taryn, but content level comes from other people.

XAVIER CALVEZ:

Thank you, Giovanni. I think that's a very helpful reminder, and I'm happy to have more discussions on strategy as well. Leonid, I think I would like to spend a bit more time with you to make sure I fully understood the points that you were trying to make earlier because I'm not sure I have. I'm wondering whether, as part of the public comment exercise that's coming up that started since yesterday, and for this group, is there an approach that makes sense for you guys to maybe give a shot at this exercise that I was looking at earlier? When you look at the budget by project and how it aligns with the strategic objectives, and what are the dollars associated with those.

If you want to make suggestion as to, "Can we reprioritize this, or can we kill this? What would happen if we killed this?" This is a group that would have a very valuable and insightful view from operators of companies on a very strategic, as well as operational understanding of activities. You know well the community and you know well the activities of ICANN. Your views would be valuable. If that's an exercise that makes sense, I think that would be a very valuable input into the public comment. I don't want to lay out the work for you, but just an idea, and I think both Mathieu and Debbie have comments. Mathieu is going to let gallantly Debbie go first.

GIOVANNI SEPPIA: No, no, no. Wait, wait, wait. First, order. Stephen first and then Debbie. Thank you.

STEPHEN DEERHAKE: I think to be less diplomatic than Giovanni, I think this group needs to remember that our guests are not the ones making the priorities, not the ones coming up with the budgets for the various projects. They are the messengers. The CFO does not set the priorities. He just produces the numbers, and we should really try our best to restrain from beating up on our guests.

GIOVANNI SEPPIA: We never shoot the messenger. That's the rule. Debbie.

XAVIER CALVEZ: I've never felt beaten up here.

DEBBIE MONAHAN: I won't start now. I think one of the things we talk about projects, but there's a number of things on that list that are business as usual. I think that we need to be really careful that there are projects that are defined as projects because of how

your systems work, but they are ongoing. They cannot be reprioritized or removed or got rid of. I think we've made this comment before. It is not always clear what is an ongoing, significant business as usual but a work that will remain on there forever. This is a true project that maybe here for one or two or a finite period of time.

XAVIER CALVEZ:

Thank you. You are completely right. When Mathieu mentioned earlier the 300 or so projects, some of those projects, I can mention one that I know of very well. I have one project which is finance ongoing operations. Then you have two. The bottom line is the true projects that have a beginning and an end and defined purpose and so on, they are not 300 out of that list of 300. There's less, but I think it's just logistics and cosmetics.

I think the point is what are the projects that we can try to reduce? Certainly from an operating plan structure standpoint, I'll tell you, every day we have conversations in the staff about the projects in Workfront that we use, Workfront being the application that we use to manage the project. This is ongoing. This is not a project. It's not very helpful to have a project that's just ongoing activities. We need to help ourselves in restructuring a bit, the way we track those projects. The current

advantage is that it's comprehensive. You have the same level of information that adds up 100% of the information. It's not always clear as to what nature of activity is captured under, but at least it's all there. We do need to improve on that, and we definitely agree with that. We have ourselves the same problem of what's an activity versus a project because obviously we have a bit more discretionary decision making as a community. Power on whether to start or kill a project, and that would have then impact on the ongoing resources as well.

I would like to probably move along a bit to section four. Lesley, we're on page 20. This is a new section that we've inserted to talk about the IANA stewardship transition and implementation. This first section, 4.1, is to describe the activities that are going on and are planned as part of 17, relative to both at the end of the transition as well as the implementation of the proposals. I'll stop here for a second since Mathieu is here.

Relative to the current project work, I would say relative to the end of the transition and the implementation, in the numbers that you have looked at earlier, I'm repeating. There is no USG stewardship transition project costs included. Zero. Nothing. Mathieu indicated earlier that there's a group that's going to be working on developing estimates for both the end of the work during 16 until June, but also the work in 17 relative to transition

and to accountability. For example, the work stream 2 and so on.

At this stage, we have a range that we've been thinking of, but honestly, this is just putting forward a bit the offer to work with, as Mathieu said, the CCWG co-chairs and the rest of the community on what should be these cost estimates, which obviously are going to result from what the activities are and also what is the funding. Where do we fund those costs from? Do they come from the baseline? Do they come from the reserve fund? Do they come from the auction funds? What do we want to do as a community?

That's that. Moving on to page 22, this is an extract from the implementation plan that the staff is in the process of sharing relative to implementing the IANA stewardship proposals. This is a complicated chart, but most of you are actually experts on this one. It simply puts on the map the PTI, which you can see at the top here of the chart. I'm moving on to the next chart, which we have a bit of a problem with, Taryn, because it's not visible. You can see a bit more than what we were seeing, you and I, earlier today, Giovanni, but we need to rework that one quickly because nobody can really read it.

This chart is trying to describe the before and after implementation, and is showing – if you can follow with me on the left here on the current, we have an IANA department budget. It's Elise's department. You guys know that department fairly well.

Her department has direct costs. What we have put, and we'll see on the next slide, is that we have also gathered the costs of the other departments for those activities that contribute to the IANA functions. For example, IT participates to that because they manage the KSK, the Key Signing Key facilities and bandwidth and sound. There's a number of other departments than the IANA department that contribute to their functions. Those of us who participated to the finance working group a few years ago have seen that, as well.

We've aggregated all those costs from the direct activities from shared resources. Then we also put the standard allocations of overheads for finance, HR, facilities and sound. That's the group of three boxes of costs that you can see here that make up the IANA functions costs. Then, second step, we have broken down that aggregated total IANA functions cost into the three operational communities. Names is where you have the PTI, and I know it's not very visible, but this chart is really nice looking when it's correct.

You have the numbers in the middle and the protocol parameters on the right, but the PTI includes the name part of the IANA function, as well as a box that's entirely invisible here for PTI-specific type of costs. The costs drive by the simple fact that we have a separate legal entity. That's the PTI box here. We will update this chart so that it's actually visible as soon as we can in the next few hours. The blue numbers here relate to the next page, which explains which box is which. That's just in case it would not be visible. Let me put that there.

Next page, we have a similar problem. How did we come up with these costs, which we're going to see in this section? We have asked Elise and her team to break down the IANA functions into 13 distinct activities that help provide more granularity and understanding on what is the activity within that group that carries out the IANA functions. 13 activities on the second line. For example, you can't read it, but the second one is ticket request answers. What are the resources dedicated to answering tickets, and so on? Those 13 activities are further described in the appendix B, unless I'm mistaken, all the way down. You have two or three pages that describe in detail each of these activities. That appendix also then provides the breakdown of the costs of IANA by each of those activities, by categories of costs (personnel, travel and meetings, professional services, and

admin), and by each of the three operating communities (names, numbers, and protocol parameters).

Just a bragging comment, this is exceeding by much the CWG requirements spelled out on the IANA functions costs. They said you should provide project level. This is much more than project level, but hopefully it will be helpful for the entire community to understand better the activities that contribute to this and how these activities have been broken out between names, numbers, and protocol parameters.

What are the costs of IANA? Here, Lesley, page 26. \$8.4 million broken up between \$5 million or so for names, \$1 million or so for numbers, and \$2.4 million for protocol parameters. Again, this is a summary. The breakdown of all that is in the appendix. There are also, as I indicated earlier, PTI-specific costs pertaining to the legal entity and its governance that add up to the names part of the IANA functions of \$5.1 million to give \$5.6 million expected costs for the PTI.

Comments, questions, even though we don't have a lot of time left?

None. Okay. This is more explanation in detail as to what appears in each categories of cost. What do we mean by direct cost of shared resources? You can see it here. What is in the

allocated support functions cost, executive communications, ops, which includes HR, finance, and so on? You can see all this here.

Next section is the New gTLD program. Very similar information as we provided over the past few years. This is not just the FY17 numbers. This is the entire program view, the multiyear view of the program. When you see \$300 million of New gTLD application fees, this is not for 17. This is for the entire program. The number last year was very close. You can see that our last year's forecast for the entire program was very close to what it is. This year's just been updated.

This is now a fairly detailed multiyear view of the entire program. The biggest question is when is the program going to finish? We would like it to finish as fast as possible, at least the evaluation part, but we have a tail end of about 30 to 40 applicants who are undecided or non-decisive about what they want to do. And there's, of course, the more specific cases of applications that are still hanging. There's fixed costs associated with keeping the program open, as we all know, so the faster we can close, the best. Further variance analysis of the program's financials, and that concludes the New gTLD section.

Last section before the operating plan is simply consolidating together the ops and the New gTLD program so that we have a total view of ICANN, which closes the loop on the diagram that we looked at earlier with all the boxes that had operations [inaudible] total.

Any questions or comments? Nope.

Headcount. This is a three-year view of headcount, broken up between the light blue being the New gTLD program. These are the resources that support the program, meaning the evaluation part. I think Leonid was pointing to the growth of the staff that resulted from the New gTLD, but not just, by the way, the New gTLD program. It's also globalization. It's also more engagement. The growth of the staff, that flattens out in 17 at the level that we have here of 386.

Section seven, as I indicated earlier, is the detailed operating plan by the five objectives, the 16 goals, the 50 or so portfolios, and 300 projects. The projects are an appendix, so if I show you the first page, just for the sake of looking at it, objective one, the first goal, further globalize and regionalize ICANN functions. We have in there one, two, three portfolios. Lesley, sorry, I'm now on page 37. The costs of the portfolios that appear here are broken down between personnel, travel and meetings, professional

services, admin. Also indicating the FTE count, the number of staff members, whether in fractions of staff members or full heads with 26.1 for this goal. The three portfolios together is our goal, and that's this view there.

Then in appendix, as you may remember, same format as last year, we have a PDF and an Excel spreadsheet that provides you with a breakdown of these portfolios by project. That's the 300 or so line that we talked about earlier with the same information of personnel, travel and meetings, professional services, and admin costs, and the FTE as well.

The rest of the document is simply the same information across all of the 50 or so portfolios. I'll jump quickly to the appendix so that you can see what's there, and I'll stop then. Appendix A is the budget by project. It's actually a separate file, so we simply reference it here in the list of appendix. It's separate files.

I mentioned the details about the IANA operations by activity, so this is described here. The 13 activities are described in these pages, 67, 68, 69, 70, 71. Then the breakdown of the costs by each of those activities, by each category, and by the three operational communities. We have also the FTEs by each of those 13 activities. That FTE count is only for the IANA department. Elise's team is broken up here into those activities.

Registrar fees, a standard section for the registrar to be able to approve themselves their fees. That's it.

GIOVANNI SEPPIA:

Thank you, Xavier. Any question on this quite extensive presentation on where we stand with the current fiscal year budget, especially the fiscal year 17 operating plan and budget which, again, has just been posted and on which we will be expected to provide comment by the end of April? Any question?

If you'd like to know more about the IANA transition cost up-to-date and also the accountability allocated section, and it's all the costs with quite clear slides are published there. That, I believe, is quite a good way for ICANN to show in a very transparent way the progress against costs for these two very important projects that have been running for now over one year.

Any comment?

UNIDENTIFIED MALE:

[inaudible]

GIOVANNI SEPPIA:

Yes. One minute.

XAVIER CALVEZ:

One minute, okay. Count down. Lesley, we're now back on the homepage. On the homepage of the ICANN.org website, on the right-hand side, there's a title in blue that's called IANA Stewardship and Accountability. When you click on that, you arrive on the dedicated page. There's no pictures of Mathieu anymore. In the links box on the left, we have the fourth link down is called Transition Project Costs. When you click on that, something happens.

You arrive on the project costs page of that website. We have cost summaries – I will come back to that – which provide the overall view of the costs. Then we provide a bit of drill down on professional services, what is in there. We'll look at that a little bit later. Legal advice, another drill down from the professional services on just the legal advice. There's legal cost by firm, legal cost by group, being either CCWG or CWG.

We have a section with the previously published information. The information that is here on this page right now is the quarterly update of the information as of December 31st, 2015, our last published quarter. The next update will occur as early as possible after the end of the quarter, but probably around early May is my guess. We're going to try to accelerate a bit that

publication. There's a lot of data extract and putting it together to be able to produce this, and it just takes a bit of time. But our expectation of the next update for the end of March 31st to the end of Q3 fiscal will be early May for this page.

If I show you quickly the IANA stewardship transition total costs since July 1st, 2014, it is \$18 million. This is broken down by types of costs. This is obviously a summary. We also provide a similar view for each of the tracks, stewardship on one hand, accountability on the other. The stewardship is the \$6.3 million here. The accountability is the \$11.4 million here, adding up rounded to the \$18 million, same information there.

Then professional services. This is drilling down on one slice of that donut that we just saw in total. What are the professional services bucket? It includes, by category, education, engagement, and advice. The list of vendors that we use. [inaudible] is a communication firm. Albright is a Washington-based – sorry?

UNIDENTIFIED MALE: [inaudible]

XAVIER CALVEZ:

It's a lobbying firm that we get advice from. They're not lobbying for us. Let's be very clear. That's one of the questions in the list that I'm yet to answer that I received after publishing this update. Albright is a lobbying firm, but they're not just lobbyists. They're also advisers, and we use them for advice. We do use these three firms for lobbying, those that are here for the total there. Just for information, we are not breaking down the costs of these buckets by each of the vendor for confidentiality purposes. Simply, we don't have the contractual rights as per the contracts with them to publish the fees.

What we have done is for the legal firms, we have asked the legal firms to allow that we publish the information by firm, which is why for legal fees, there's another section that you have seen on the previous page where we publish the information of the legal fees by firm, by month, with the hours.

I'll come back on that page. Legal fees, just so that you can see what we are publishing. I'll show it by firm for the minute. This is what you have. For each month, because it's mainly by month, which group, the number of hours, the total dollar. If you want to calculate average rates, you can.

Okay, that's it.

GIOVANNI SEPPIA:

Thank you, Xavier. That is plenty of information we can get entertained with in the coming days, if you like. It's updated quarterly, so we have [inaudible] the next entertainment to be produced by early May, as you said. If there are no other comments or questions to Xavier and Taryn, I'd like to thank them a lot for all these updates they provide to us, and again, for the great job you have been doing internally to make sure that there is a more structured and transparent process, which is clearly acknowledged by the community, including by this working group. We have already acknowledged the progress that has been made over the past five years in presenting this kind of information to the community.

There was one point that was in the agenda, and it's in the agenda. It's the ICANN assessment of the hubs and engagement center cost, and the way to move forward. I believe after the discussion we had today that this is part of the strategy, part that is really content part. This feedback on this point should not be provided by Xavier or Taryn, unless it's just merely financial feedback, but we may like to invite in the future, as again we underline specific points when we submit the comment.

Those specific points sometimes are not just relating to the financial aspects, but are relating to the strategy and the content of it. We may invite the ccNSO Secretariat in to invite

those who are behind the strategy, and therefore they will be invited to explain to us the long-term plan against that and actions or the various projects. Therefore, we can have a more sound basis of reflection for expressing future comments. I would suggest that we include that this ICANN assessment of the hubs and engagement center says one of the first invitations to the person in charge of these aspects inside ICANN for the next meeting, if possible. I'm looking at [inaudible]. He's the messenger.

The next meeting being – I'm not saying the location. I won't [inaudible], but next meeting be in June, if possible. Of course, I think that if we support another strategy matter for which we would like to receive more information regarding long-term strategy within the fiscal year 17, we will highlight it in the comment that this working group will produce so that we may think to invite the person in charge of that matter. Bart.

BART BOSWINKEL: May I suggest that based on the comments that you will provide as an input, maybe a month before the Helsinki meeting, we set up a call of the SOP working group. Listen, listen. I didn't hear that one, that you will set up a call before the meeting just to find –

UNIDENTIFIED MALE: You just said the name of the city where we're going.

UNIDENTIFIED MALE: The location.

BART BOSWINKEL: Oh, sorry.

GIOVANNI SEPPIA: It was not much of a secret anyway.

UNIDENTIFIED MALE: I already heard [inaudible] say that.

UNIDENTIFIED MALE: Maybe I'm too tired already.

BART BOSWINKEL: But a month before a meeting B that we set up a call of this group and try to figure out who we need to invite so they will be available timely.

UNIDENTIFIED MALE: Mathieu?

UNIDENTIFIED MALE: Xavier.

XAVIER CALVEZ: Thank you. If I may, I think that in order to be able to provide feedback by meeting B in northern Europe, I think it would be helpful to have a comprehensive understanding of what type of information would be useful. But one month in advance is not going to do it. I think we're going to need more time. If it would be possible to get either during this meeting or immediately after this meeting, a better understanding of what type of information would be helpful to see, I think that would then let us be able to produce information in a fashion that is useful when we then see each other in the location of meeting B.

My point being that if we're talking about the strategy of engagement and how the hubs and engagement centers support that strategy of engagement, it's not just three figures we're talking about. It's not either just figures. It's also a strategy. And it's something that Sally and maybe Susanna should help define and put together, maybe should come present.

The cost part is marginal, nearly, to that overall strategic understanding. If that's the type of things we're talking about, it's a much more comprehensive thing than just pulling together three figures that will really not say anything at the end of the day, or not much, I think. So clarity on what we would like to see and produce would be helpful. I think the other French person had something to say.

GIOVANNI SEPPIA:

Mathieu first and then Bart. Thank you.

MATHIEU WEILL:

I think I really, fully support Giovanni's request that gradually, this group's time management must move from focus on the figures and the finance towards discussions related to ICANN's project, taking into account the strategic goals, the appropriate resources. We spent a considerable amount of years ensuring that there are sound financial foundations to inform these discussions, but that's not what we are interested in. We are interested in discussing the opportunity of projects.

If I was provocative, but we're between French so we can't, I don't want Xavier anymore in here, or at least just ten minutes. I want to discuss with the leaders of some projects about what

they're doing. I have to assume they are aware of the financials of their own projects because they are supposed to be owners. I don't want to have a three-month lead time to be able to discuss this because obviously, they certainly have these discussions internally.

I think it's going to be a key way to monitor that our group and ICANN are making progress that we spend more and more time on the projects themselves, the activities. Maybe someday we'll call you and say, "I'm just too expensive at ICANN. I don't know." That would be the target. I see you nodding, so it's a good sign.

XAVIER CALVEZ:

Yeah. I think that over the past few years, we've painfully come to a point where now we have information. It may not be perfect, but we have information at a level of granularity and understanding that is usable. Now we have the information to be able to start talking about strategy. We've discussed that, if not in the last meeting, maybe the one before. We need to find the right way to feed this group with the strategy that these numbers are supporting, really, at the end of the day. We mapped the costs to the strategic objectives. Now can we find ways to display the strategy there to drive the activities that drive the costs?

How this is presenting to this group is something that I think makes a lot of sense. Honestly, we could try to take it by large buckets. Let me take an example. We just talked about engagement. We can talk about engagement and have Sally come here and say, “This is what we’re doing. This is how we’re doing it. This is where we’re doing it. This is with whom we’re doing it. This is how much it costs,” and have an engaged discussion with this group, maybe on the basis of a preliminary document and questions answered. That makes a lot of sense to me. I’m not trying to sign Sally up, but the logic is there as to moving into that direction. If that’s where the group wants to go, I think we need to get to the point of making it a reality. A natural, explicit request maybe would be helpful. Then we move down that path.

UNIDENTIFIED MALE: We’ll make sure you receive a [sealed letter] about that, [Bart].

GIOVANNI SEPPIA: Any further comment on the way we are going to move forward for organizing the next meeting in meeting B, C, D, E, and so on? Meeting okay. I’d like to spend the last few minutes about the working groups. I circulated this e-mail at the end of February with a tentative assignment of the working group members to

the various sub-working groups. I will produce in the coming days a tentative time frame for the various sub-working groups to produce their input. Also, looking at the current fiscal year 17 operating plan and budget, it might be some little changes in what its sub-working group is requested to provide input. I'll try to do this by early next week so that there is a time frame for this to make sure that we are all ready to provide input by a specific date. Then with the help of Bart as usual, I will assemble all the input and make sure that Xavier receives our comment on time.

Before drawing this meeting to a close and having the opportunity to have Lesley online, I would like to thank Lesley a lot for the work she has been doing over the past years for this working group. For the extremely professional, impeccable way she has always addressed the various matters regarding the various strategy plans, various operating plans and budget we have seen over the years. I think she has been really a key driver in helping ICANN improving the process, refining the process in a little bit more structured and complete in the final interest of this community. Thank you so much, Lesley. Thank you for participating today in this working group remotely. I'd like to call for an applause. Thank you. That's it, and in the full spirit.

LESLEY COWLEY: Thank you.

GIOVANNI SEPPIA: Thank you, Lesley, again. Lesley, would you like to say something?

LESLEY COWLEY: Sorry. I'd just like to say thank you. I'll be on your case if you don't keep up the good work. Thanks, Giovanni.

GIOVANNI SEPPIA: Please do. Please do. With delay of only three minutes in the typical Italian way, I'm drawing this meeting to a close. Thanks, everybody. Thank you again, Xavier and Taryn, and thank you to the ccNSO Secretariat. Thank you so much.

[END OF TRANSCRIPTION]