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ABU DHABI – Budget Working Group  
Wednesday, November 1, 2017 – 10:30 to 14:00 GST  
ICANN60 | Abu Dhabi, United Arab Emirates

UNIDENTIFIED MALE: This is the ICANN60 Budget Working Group, on the 1<sup>st</sup> of November, 2017, from 10:30-2:00 in Capitol Suite 7.

JESSICA CASTILLO: We'll begin in just a couple of minutes as we let more people arrive.

Good morning, everyone. My name is Jessica Castillo, Operations and Project Coordinator for the ICANN Organization with the Finance department. Thank you, guys, for joining us today. This session will be recorded and we will post it in the schedule for the ICANN meeting shortly after this session concludes – I believe in a day or two.

Today we're going to be going through several topics and breaking it up into two parts. The first part will go until about 12:00 p.m., until noon, and then we'll break for a few minutes so that everyone can grab some lunch. We'll have lunch served right outside this room and provide it for everyone. Then we'll go ahead and work through lunch on a couple different topics. That should end up about 2:00 p.m., ending early if we can so that

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*Note: The following is the output resulting from transcribing an audio file into a word/text document. Although the transcription is largely accurate, in some cases may be incomplete or inaccurate due to inaudible passages and grammatical corrections. It is posted as an aid to the original audio file, but should not be treated as an authoritative record.*

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anyone who needs to go to the GNSO Council meeting can attend that.

We will take questions as we go along. It's interactive. Anyone who has thoughts or ideas, please feel free to share. For those of you online, please type in the chat your questions and we'll try to read them out loud. But for the sake of trying to stay somewhat on schedule, any that we don't get to we'll come back to at the end to try to provide answers.

Let's get started. The presenters today will be Xavier Calvez, the ICANN Organization's Chief Financial Officer, Becky Nash, the ICANN Organization's V.P. of Finance, and myself. For part two, Cyrus Namazi will join us – the ICANN V.P. of DNS Industry Engagement.

We'll go ahead and start with part one. Becky?

BECKY NASH:

Thank you, Jessica. Hello, everybody. This is Becky Nash from the ICANN Organization. We wanted to first start with a slide called The Purpose, Approach, and Desired Outcome of This Session. The purpose of this session is an interactive engagement between ICANN Organization and community members on planning and budgeting. This is an informal exchange with no specific representation role, so for all

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questions, please feel free to ask. It's interactive. Let's please engage with each other. Participation in this group is based on interest in ICANN's planning process.

The approach that we're following is the timing of ICANN60 is early enough in the budget process before the development of the detailed budgets. This lets us review together the planning process, and then we can gather constructive input, comments, and proposals for the planning process.

The desired outcome is to deepen the mutual understanding of expectations and involvement with community members. Input received during this session will be considered in the development of the budget assumptions.

Today for our agenda we're first going to go over the FY17 results, and that's our fiscal year '17. We're going to have an overview of the process and timeline and changes to the operating plan and budget process. In section three, we have an overview of the PTI/IANA Operating Plan and Budget. Our fourth agenda item is the reserve fund, and then we go into a Q&A, general, a wrap-up, and next steps.

In addition, I just want to remind everybody that we have two parts to this session. Again, as Jessica had indicated, we have this first session ending at approximately 12:00 in order to break for lunch. After lunch, we have an additional session related to

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the funding trends that we would like to review in anticipation of budget development for FY19. Then we also have a session on long-term financial planning.

Xavier, would you like to say some words?

XAVIER CALVEZ:

Thank you. Hello, everyone. I just wanted to introduce Maarten Botterman as a Board member, but incoming Board Finance Committee member who just joined us. Thank you, Maarten, for being here.

BECKY NASH:

This section is regarding our FY17 results. The first slide I'd like to cover is just our organizational reporting structure. We covered this in all of our financial and operating plan and budget review sessions just in order to discuss how the documents are laid out. On the left-hand side, we have the blue boxes, which relate to our ICANN operations. That segment of reporting includes the ICANN base operations, along with the activities for PTI and the IANA functions. We have the funding and the expenses for ICANN operations.

Over to the right, in the middle, is the IANA stewardship transition expenses. At the bottom of the slide, we have gray boxes, which represent the funds under management by section

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or segment. As you can see, for ICANN operations, the core operations are funded from the operating fund. The IANA stewardship transition expenses – that is the end of the USG transition where we have those expenses funded by the reserve fund. That is for FY18.

On the right-hand side of the slide, in orange, we have the segment called The New gTLD Program. That is related to the application fees for the New gTLD Program that were collected up front. Each year we recognize the expenses as we progress through the program and funding related to those expenses. Those transactions and that segment is funded from the gray box at the bottom, called the New gTLD Funds, which relates to the upfront collection of the application fees that have been used to fund the program.

On the right-hand side, we have the funds under management – the small gray box at the bottom there – which is the auction proceeds. As you can see, there are no funding or expenses or operations related to that. Those are the funds under management.

The collection of these segments then is what we call Total ICANN. This is reflected in our operating plan and budget and in all of our actual financial reporting.

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For FY17, we have our year-end financial highlights on this slide. In the next slide, we have the table of the results.

Just to start off, for ICANN operations, the fiscal year-end position, which means after 12 months for FY17, where the year started July 1<sup>st</sup>, 2016, and runs through June 30<sup>th</sup>, 2017, overall the fiscal year-end position was higher than budget. We had a net excess or a net asset increase of a million dollars instead of a budgeted deficit of \$9 million. This increase in net assets is due to the fact that the funding was higher than budget by \$2 million. Total expenses for ICANN operations was under budget by \$4 million.

The total expenses for ICANN operations does include the USG transition expenses for the IANA transition, and that is one of the main drivers for the favorability or being lower than budget because of the fact that the spending was much lower than what was budgeted for FY17 due to the fact that the activities for Work Stream 2 moved from FY17 into FY18.

In addition, for our financial highlights, the New gTLD Program had expenses that were lower than budget. This was due primarily to lower refunds that were withdrawn from applications in the program and partially offset by legal defense costs and auction fees incurred.

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The final point for FY17 highlights is that our funds under management increased by a net \$119 million to end at \$460 million as of the fiscal year end, which, again, is the 30<sup>th</sup> of June, 2017. This is due primarily to the fact that, in early FY17, ICANN collected the auction proceeds of \$135 million. That drove up the increase in the balance.

Xavier, would you like to comment on this?

XAVIER CALVEZ:

Yes. Thank you. I lost Asha now. Where did she – no. Sorry. Asha Hemrajani is our Chair of the Finance Committee. Thank you for attending.

I just wanted to comment a little bit further on that. It's a bit complicated. Becky has explained the IANA stewardship transition impact. I just wanted to make clear to everyone that you've seen that, for FY17, we had a budgeted deficit of \$9 million. That reflects two different things.

The ICANN operations were budgeted to be balanced expenses equivalent to funding, not exceeding funding. In addition, we had the WS2 budget of \$9 million, which is funded through our reserve fund. So the WS2 expenses are expenses and therefore create the deficit that was budgeted for. The deficit is funded through a withdrawal from the reserve fund. That is how we

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have, for the three years up to FY17, handled the funding of the IANA stewardship transition, which is why, for each of these three years, we always had a budgeted deficit corresponding to the amount of the IANA stewardship expenses.

We have instead an excess of \$1 million, which means we are \$10 million better than budget, basically. This is driven by three elements: funding being a bit higher, ICANN operations expenses being a bit lower, and IANA stewardship transition expenses being a bit lower as well.

I just wanted to make sure that's clear to everyone. Becky, can you go back the preceding slide?

Basically what we're seeing is that this was supposed to be a deficit of \$9 million because this was supposed to be \$9 million. This was supposed to be balanced. What turned out to be is that this was higher by two, this was lower by four, and this was lower by three.

Okay. Thank you.

BECKY NASH:

Thank you, Xavier. This next slide actually shows this on the table, where you can see a little bit better – oops. We have questions?



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XAVIER CALVEZ: Sorry to interrupt. We have a question from Sébastien.

BECKY NASH: Yes, Sébastien?

XAVIER CALVEZ: Okay.

BECKY NASH: Okay. Thank you. Just as Xavier was saying, in the highlights page, this gives a better view where you can see the actual figures of the funding of \$135 million for actuals, again, for the 12 months, ending 6/30/17. The baseline expenses, which do include the IANA-PTI expenses of \$129 million – that green box there of the IANA stewardship transition expenses in FY17 of \$5 million. The ending result is a net asset increase of \$1 million. That’s compared to the budgeted deficit of \$9 million.

This slide also gives a view of the FY16 amounts, where you can see the trends that FY17 is higher in funding than FY16 by \$9 million. Baseline expenses also increased from FY16 by \$22 million, excluding the transition expenses. You can see in the green box that we have FY16 compared to FY17 in how the transition expenses decreased from the \$18 million to \$5 million.

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At the bottom of the slide, we have breakout where we are showing the IANA services that are included in the baseline expenses.

We also have a note at the bottom of this slide just to explain that, on these slides, we do show our cash expenses, which exclude bad debt and depreciation and do include any kind of project costs that include capital.

This next slide shows the total ICANN Organization FY17 year-to-date results. As you can see, on the column headings we have the ICANN baseline operations that we just discussed on the prior slide, the IANA stewardship transition, which all together we call the ICANN operations, and then the New gTLD Program and the total ICANN Organization.

Funding from the total ICANN Organization perspective is \$290 million as compared to expenses then of \$155 million across all these segments, arriving at a net asset change, positive, of \$135 million. This is due to the New gTLD Program column, where we have both the program and the auction proceeds. So in the funding, under Column C, which is the New gTLD Program, the auction proceeds of \$135 million are included in that funding number.

Yes, Xavier?

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XAVIER CALVEZ: Sorry, I keep making announcements. We're joined by Akinori Maemura, our Board member who's also an incoming member of the Audit Committee at the next Board meetings. Thank you for attending.

BECKY NASH: Sébastien, did you have a question?

SÉBASTIEN BACHOLLET: Yes, please. Sébastien Bachollet, a participant to an organization named ICANN. First of all, when you use your roving mic, the sound it's completely different than when you use a fixed mic. I can hear you here, but I can't hear you when you are using the roving mic. If you are seated, it's better if you use the fixed mic, please, because I think the sound is not very good in this room.

I have a question. Why have you put together the auction proceeds fund with the rest of the New gTLD Program and not split it when it's under – I know that it's a fund under management, but it was clear that it was under management but in a different bracket. Why have you put it back together? Thank you.

XAVIER CALVEZ:

I'll answer that. Can you go back to our financial reporting structure slide, please?

Thank you. It may not be very explicit, but there's two different elements that we are showing here. When you look at the right side of this slide – can I have the clicker, please? Thank you.

We are showing the auction proceeds here, and that's the funds I think you're referring to. It is, as you are pointing out, under the overall financial reporting segment of the New gTLD Program. This is simply because this financial reporting structure actually mirrors what we produce from a management standpoint, as well as from an audited financial statement standpoint. So it's a segment.

The auction proceeds are simply the result of having been generated for ICANN as a result of the New gTLD Program, which is simply why we are showing them located under that heading and segment.

However, you also see that the boxes between new gTLD funds and auction proceeds are separate. This is simply conceptually illustrating the fact that the auction proceeds collected are also segregated “physically” in different and separate accounts – investments accounts and cash management accounts. They are

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fully segregated. The new gTLD funds are used exclusively for the purpose of covering for the expenses of the New gTLD Program, and the auction proceeds, which are in separate accounts, are used for nothing at this stage, until, of course, the CCWG, that is currently working on developing a mechanism for disbursement, has concluded its work, the Board has reviewed it, and implementation of the recommendations will have started. Then those funds will be disbursed according to the process.

So these funds are completely segregated and separate from any other funds at ICANN. Does that help? Thank you.

Basically, to make it simple, the four gray boxes that you see here represent the actual physical segregation of the funds. The operating fund is in basically a number of bank accounts in various currencies to support our operations on a daily basis.

This is in one investment account at one investment firm. These funds are distributed across three investment banks in segregated accounts for new gTLD funds. These auction proceeds are also segregated in three different banks, also in separate dedicated accounts. Thank you.

Additional announcement. Welcome, Lito...no. No. Lito is a Board member. He's part of our Risk Committee and incoming Chair of the Risk Committee. So we have several of the

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committees of the Board represented here. Thank you, Lito, for participating.

BECKY NASH:

Okay. Thank you. We'll go to the next slide. Again, this is the section covering the FY17 actual results. On this slide, we have the source of funding for FY17 for the 12 months. On the left-hand side, you can see the funding that is driven by the domain name registrations. At the top, we have the funding from the registries based on the transaction-based fees for \$54 million, representing 40% of the FY17 funding.

At the bottom there, also driven by the number of domain name registrations from registrars, we have the transaction-based fees of \$31 million, or 23%. Over on the right-hand side, we have the sources of funding that are driven by the number of contracted parties.

So the per-TLD fixed fees at the top from registries – we have \$30 million, or 22%, from the registries' fixed fees. At the lower right-hand side, we have the application and accreditation fees driven from the registrars – from the number of registrars, the number of applications – at \$16 million, or 12%.

At the bottom lower left-hand side, we've made a notation of other income of approximately \$4 million, and that is primarily

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from the ccTLD voluntary contributions and from the RIR contribution, for total funding, as noted at the lower right-hand side, of \$135 million for FY17.

Marilyn?

MARILYN CADE: Thanks, Becky. We are joined by – he may have introduced himself earlier – a brand-new participant in our business community – a business executive from Egypt. Let me introduce [Alla] to all of you.

[ALLA]: Hi.

MARILYN CADE: I'm using this as an example for something that occurred to me as this was being presented. You're going to save me a lot of time in educating [Alla] about the intricacies of our budget process if we have an appendix that explains what transaction-based fees are, what applications fees are, what accreditation fees are, and, under other income, maybe have a footnote.

I just say this to you because we are increasingly, in the BC, trying to recruit additional participants in our budget working process. Probably, with all of the new people we're bringing into

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ICANN, something that we didn't need before might need a little more demystification.

XAVIER CALVEZ:

Thank you, Marilyn. This is very good input. As you know, we've had on Monday a budget basics session. It sounds to me that we should probably add in those materials a bit more information on describing the fees, to your point. We don't have it here, but we'll speak to it. And please ask any questions that you may have.

I'll try to go quickly over the nature of the fees. I'll start with the left upper corner. Actually, all the left side here is the same nature of fees. Very simply, when – thank you – when you register a domain name, you pay a fee to the registrar with whom you've registered that domain name. Let's assume you pay a ten-euro fee. Out of that ten-euro fee annually that you pay for the domain name, there is, most of the time, 18 cents of a euro that goes to ICANN. That's what those fees are in the upper left corner.

Then, separately, for the same registration of that domain name, the registry, which is the operator of the top-level domain, will also pay to ICANN 25 cents.



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I'm going to go back for a second. One transaction, one registration of a domain name for one year, triggers here 18 cents to ICANN and triggers here 25 cents to ICANN. So one registration of one domain name for one year provides funding for ICANN of 43 cents in total between the two. 25 cents is collected from the registries, and 18 is collected from the registrars. So this entire column and that represent close to 65% – basically two-thirds – of ICANN's funding.

On the top right corner here, we have the fixed fees paid annually by the registries for their contract with ICANN. So this is the fixed part of the fees paid by the registries. This is the variable part.

This \$30 million here – you're going to do a little bit of audit with us. We've booked a revenue of \$30 million for this fixed fee in FY17. This is \$25,000 per registry annually. That's the fixed fee. We have 1,200 registries on average in the root. During FY17, [1200] times 25 is the \$30 million that you see here. Very simple. Very straightforward.

So this is the registrar area. Below here we have the two different fees. One, just like the registries above, the registrars pay to ICANN an annual fee. We call it the accreditation fee. You're a registrar. You're accredited with ICANN. You pay a fee to ICANN of \$4,000 per year. Very simple.

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There is also another fee here, which is the one we call an application fee. If you apply to be accredited with ICANN, there is a one-time application fee of \$3,500, simply for the cost of evaluation of registrar application. Those are the fees that are covered here.

The other income here includes \$823,000 from the RIRs, which is a one-envelop contribution from all the RIRs together. So it's effectively paid to us from a logistical standpoint by the NRO, which regroups the five RIRs.

The rest of the \$4 million or so is made of voluntary contributions, mostly from the country code operators. So everything that you see up there in these four boxes comes from the gTLDs, and the country code operators, the ccTLDs, contribute approximately \$2 million per year in voluntary contributions. There's about 160 country code operators in the ccNSO, most of which are contributors, but there are also some contributors to ICANN that are not members of the ccNSO, .ch, for example.

The very last piece of funding that we have here is the meetings sponsorship. You have seen some advertising of businesses in the venue, in the ICANN meetings, and those are advertisers that provide sponsorship fees to ICANN.

That's it.

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UNIDENTIFIED FEMALE: Introduce yourself.

[ALLA BUSSOD]: [Alla Bussod], BC. Why is there this high budget deficit? From where is it coming? Is it normal over the years? There's a budget deficit. From where is it coming?

UNIDENTIFIED MALE: [inaudible]

UNIDENTIFIED FEMALE: [inaudible]

[ALLA BUSSOD]: Yeah. There was a budget deficit in FY –

XAVIER CALVEZ: Yes. There's a bit of history here. The deficit is corresponding to the expenses relative to the IANA Stewardship Transition project. That was a very large project that triggered a very significant amount of costs for the organization and that the annual funding of the organization was not sufficient to cover because, basically, as you have seen, otherwise our budget is more or less balanced.

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When the IANA stewardship transition got initiated, we had to cover for a large amount of costs for that project. We didn't have the resources to do so, so we dipped into our reserve fund to be able to fund those expenses. That's how we pay for the expenses.

But when we look at our financial statements, these expenses are, along with the rest of the expenses – this is why, when we compare the annual funding that we get from all the expenses that we have, we show a deficit simply corresponding to those expenses there of the IANA stewardship transition. That's how we have planned every year. So we were budgeting for a deficit.

It turns out that, in three of the years, we were actually able to not generate a deficit – you've seen that we had an excess of \$1 million – by having – on separate drivers – a bit more funding than we thought we would and also having a bit less expenses on the rest of the operations, thus being able to offset the impact of the IANA stewardship transition expenses.

Does that explain – yeah? Thank you.

ASHA HEMRAJANI:

Sorry. I just wanted to say a few words. It's a bit strange to say this now, but I was waiting for my Board colleagues to arrive. I just wanted to say – my name is Asha Hemrajani, and I'm the

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outgoing Board Finance Committee Chair and I wanted to say a few words of thanks to everyone here because I'm really grateful for your participation in this Ad Hoc Budget Working Group.

My first introduction to ICANN was in a room like this three-and-a-half years ago. That's the first time I met some of you, actually. And I met Xavier. That was my first introduction to ICANN, my first introduction to the finances of ICANN. I was very struck by the enthusiastic participation of this ad hoc working group, so I would like to encourage all of you to continue. I'm very grateful that you have been giving us support over the last two years while I've been Chair of the Board's Finance Committee. So I would very much hope that you will continue.

I think the work that this ad hoc group has done has been instrumental and quite important. It very much affected our discussion with the community when we were discussing the budget veto process during the transition. Again, it just goes to show how important that it is that the community has a voice in the budget. What's important is that this voice continues.

So I'm the outgoing Board Finance Committee Chair. I'm going to hand over my responsibilities to the capable hands of my colleague, Ron da Silva, who should be sitting over here. Please do give him your support as you have been giving me support over the past years. I just wanted to say a big thank you to you in

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case I cannot stay until the end of this session. Thank you very much.

RON DA SILVA:

Thank you for saying that, Asha. I appreciate your leadership in the Finance Committee for the last couple of years. I think what's more important for the community is to align behind our CFO. The BFC has more of a governance role. We are not controllers. We don't approve or disapprove on a day-by-day basis expenses or whatnot of what the organization is doing. That's really up to Xavier and his team. This is his meeting and an opportunity to get that input. We're here just to provide some oversight and see in real-time what the interest of the community are and what the concerns of the community are so we can advocate on your behalf as well as we engage with the CFO on the finances of the organization.

XAVIER CALVEZ:

Thank you.

ASHA HEMRAJANI:

Sorry. One last thing. I have to say a big thank you to Xavier and his team of superwomen. They really deserve a big hand, big kudos.

XAVIER CALVEZ:

Thank you, Asha. Thank you, everyone. Just to complete the introductions, we also have Lousewies van der Laan, who is our incoming Chair of the Audit Committee of ICANN. We have Sarah Deutsch, incoming Board member and incoming member of the Audit Committee of ICANN. We have Khaled Koubaa, who is an incoming Finance Committee member. We have a good representations. And we have introduced everyone else, except George Sadowsky, who probably doesn't need introductions anymore but is also a member of our Finance Committee. So we have good representations here of the Board members involved from close or far into the financials.

What is important for you to see is that the Board cares. The Board is very involved. The Board is very close to this. This is very important for the community to know, and your questions, your inputs, and your thoughts are very much of interest to the Board who are here because that's how they are able to understand directly what the community thinks or cares about. I think that's a very useful exercise as a result. Thank you.

We're going to move forward a bit faster. We spent a bit more time on this than originally scheduled, but that's for the better. Thank you for that.

We'll move forward, Becky.

BECKY NASH:

Thank you, Xavier. We're going to move to the next slide. This is a review of our funds under management as compared to June 30<sup>th</sup>, 2016, and for the year ending June 30<sup>th</sup>, 2017. At the upper left-hand side of slide, in orange, you can see the total funds under management as of the fiscal year end of \$460 million. Those amounts are split between the ICANN operations, which is the operating fund and the reserve fund, totaling \$96 million, the New gTLD Program, and the auction proceeds, together arriving at \$364 million.

This slide just gives you a comparison year over year. The major increase then in the funds under management under the new gTLD segment is related to the auction proceeds, again, that were received in early FY17.

Next slide. Just to conclude this overview of the results of 17 and before we move into the planning process for FY19, this slide just provides a summary of the FY18 budget overview. The FY18 is the current fiscal year that we're in, covering the period of July 2017 through June 30<sup>th</sup>, 2018.

As you can see on this slide, we have the FY18 total funding of \$143 million, total expenses of \$143 million. That results in the balanced budget concept that we'll be discussing further in this presentation. The box in green, where we have the stewardship



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transition expenses that are funded have been approved to be funded from the reserve fund for \$3 million for the FY18 budget. That results in the net deficit of \$3 million just to cover the IANA stewardship transition expenses.

Next slide – oops. Question?

UNIDENTIFIED MALE: Yeah. Sorry. You are going to pass from '17 to '18 now? Just to make a question about FY17. The audit of the FY17 – there is \$6 million+ coming from earnings from finance – sorry. I've been trying to find the wording. Sorry it's not my mother tongue.

UNIDENTIFIED MALE: [inaudible]

UNIDENTIFIED MALE: Say it in your mother tongue.

UNIDENTIFIED MALE: Thank you. [inaudible]. The investment you have here. There is a \$6+ million you have at the end of this. I don't see [data] on any side of this, so it's not a small thing.

XAVIER CALVEZ: Thank you. Good catch. Can we go back on the P&L, please?

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You have just described the interests generated by our investments of approximately \$6 million that are not in the schedules. The reason we do that is because, in these schedules here, we produce the impact of the ICANN operations. This excludes, either in expenses or in funding, the expenses and revenues related to our investments. We are not putting them there. Why? Because the interests produced by the investments remain with the investments. So the interests increase the capital and are automatically reinvested. We never touch, never use, those interests.

UNIDENTIFIED MALE: Sorry for following up. So they are supposed to go to the reserve?

XAVIER CALVEZ: They stay within the investment fund that they are in. If it's the reserve fund investments that generate interest, then they stay with the reserve fund and they increase it. If it's the new gTLD funds that are invested, the interests stay within the new gTLDs funds and are reinvested, and so on. We never spend the interests generated by the investments.

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BECKY NASH: We have another question. I would like to remind people to announce their name so that we know who's speaking.

OSVALDO NOVOA: Osvaldo Novoa from the ISPCP. I notice that are forecasting an increase in revenues of 6% and an increase of expenses of 11%. I would like to know which is the most important.

XAVIER CALVEZ: I'll speak about the funding. You'll try to speak about the expenses. Funding is – I've given her the more difficult part.

BECKY NASH: Yes, exactly. [inaudible]

XAVIER CALVEZ: Because she has all the information. The funding is increasing, mainly driven by increases in the number of domain name registrations that trigger then the fee that we've explained a little bit earlier. So the variable fee coming from both registries and registrars is the one that drives most of the increases here. And that is driven by both legacy TLDs – the 18 .com, .net, .org, etc. – but also, and more substantially, the increase is driven by the new gTLD registrations.

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As the rest of the Board members knows, we see for now a slightly slower growth in new gTLD registrations than last year. We're trying to figure out whether this is circumstantial or a trend. Is it long-term or just a short-term event? We will speak more about in the second part of this exercise from 12 p.m. on because Cyrus Namazi and his team will help us present and discuss together the assumptions for funding, which are exactly those trends.

So that's mainly what drove the increase in funding between FY17 and the budget of FY18. Thank you.

BECKY NASH:

Thank you, Xavier. When we speak about the FY18 budget, which is I think what the question was regarding, where we have ICANN operations baseline expenses for \$143 million, primarily the drivers there are the full-year impact of the FY17 added personnel, meaning the new hires in FY17, and the related compensation increases to the existing employees. As we published on our website the FY18 Operating Plan and Budget document, there is a slide, 16, of that document that provides the bridge of what has increased in FY18 as compared to the forecast for FY17. The largest component is related to the increase of the full-year impact of the hires that were made throughout FY17.

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Just to let you know, at the beginning of the presentation, we talked about the FY17 results where we were lower in expenses. Many of that was the impact of not hiring for budgeted positions. Outside of that, we have a nominal amount of planned new personnel in FY18. That is what the explanation is for the increase of expenses.

Okay. This next section we're going to move into is the FY19 planning process. Again, this is meant to be an interactive session, so as many questions as you have, please let us know.

The first slide we're going to cover is just an update on the FY19 planning process. The first item is the fact that the draft FY19 PTI Operating Plan and Budget is currently posted for public comment. That public comment period began on the 9<sup>th</sup> of October, 2017. It's a six-week public comment period which closes on the 26<sup>th</sup> of November.

The PTI Operating Plan and Budget is on schedule to be presented to the PTI Board for adoption towards the middle or the end of January. That should say 2018, not 2017.

An update for the ICANN operations planning process. We are underway in the five-year operating plan update and the FY19 Operating Plan and Budget process. For the budget process, we've done engagement early on as it relates to the process and the timeline. We are now currently under development through

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the period of October and December. That's why this Budget Working Group is so valuable for us as part of the engagement.

The next key step as it relates to the FY19 planning process will be that we're on schedule to publish the ICANN Operating Plan and Budget for public comment in mid-January.

We also would like to highlight that the draft ICANN FY19 SO and AC additional budget requests process will launch in early December. That is on target for the submissions to be collected towards the end of January 2018.

XAVIER CALVEZ:

We're never done with the introductions, so I just wanted to acknowledge the presence of Cherine Chalaby, who is – hold on – an outgoing member of the Board Finance Committee, after having chaired it for several years and been a member of it. And of course, he's the incoming Chair of the Board. If you hadn't heard from me earlier that the Board cares, I think that now it's very clear.

BECKY NASH:

Thank you, Xavier. For this next slide, this is the FY19 documents and the content of the documents. This is a slide that we'd like to cover in detail, as this is really part of the working group engagement that we would like to have.

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The ICANN Five-Year Operating Plan Update. We are now in year four. This is where we will be updating the portfolio, KPIs, the dependencies, the phasing, and the five-year financial model.

The next section covers the ICANN and PTI FY19 Operating Plan and Budget components. We have a list here of several of the items that we provide in the document, again, which is posted for public comment, where we provide an operating plan and budget by objective, goal, portfolio, and project.

We have provided an executive summary for the FY18 Operating Plan and Budget, and that's something that we would like to get feedback on, on what the community members would like to see as part of an executive summary to our Operating Plan and Budget document.

We provide the funding details, along with the assumptions that are used for the funding. Again, the second part of this Budget Working Group, which will start right after lunch, is when we will be discussing the current trends as it relates to the funding and the potential models that will be used for FY19 projections.

In our operating plan and budget, we provide operating expenses by cost category. We use standard five-cost categories, including personnel, travel, and professional services. We make those categories standard so that we can do comparisons from one period to the next.

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We provide a schedule of risks and opportunities, and that would be where we quantify and describe any potential risks to the operating plan and budget that's being presented, and also any potential opportunities, meaning areas that may have more favorability. This schedule is presented at the time that we post the document for public comment because there may have been new information received after the detailed budget development that starts at the very lowest level.

In our Operating Plan and Budget document, we provide information on headcount. We have statistics as it relates to the end-of-period headcount. We also define the label of end-of-period, which would be at the very end of the fiscal year, as a comparison. We also provide headcount information on the average headcount on personnel during the year.

From an operating plan and budget standpoint, the finances can be linked more so to the dollars related to average headcount throughout the year.

Our document also includes a section on the multi-year view of the New gTLD Program. Then we have information on the funds under management, including a cash flow budget. That is something that we introduced last year and that we will continue to provide as part of the operating plan and budget.



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We have information during our process on the SO and AC additional budget requests. We have our key projects reporting. That is where we report on the key strategic projects that are included in the operating plan and budget. We do have some plans to have more in-depth commentary as it relates to the key projects for the FY19 documents.

The last item listed here is the fact that we do include a section on the caretaker budget. The caretaker budget was something that arose as part of the new Bylaws that have the community powers to veto the budget. If such an action were to arise and a component of the budget would be vetoed, then ICANN has already prepared as part of the planning process a caretaker budget that would go into effect until the final budget goes into effect.

I'll just pause here to see if there's any comments from any community members on schedules that they would like to see more in-depth information on. I believe we had some comments about the executive summary.

XAVIER CALVEZ:

While you're thinking about it, we've had one Monday questions about providing the budget by SOs and ACs, as well as a geographical distribution of the budget, neither of which we currently do, though a certain amount of the information that

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we provide today in this format answers both questions. But there's no very clear and specific information provided on the budget by SOs and ACs, which is an exercise that we would need to carry out. We'll consider that.

We have a comment from, I think, Ricardo and Marilyn.

RICARDO HOLMQUIST: Yes, about the timing. I understood on Monday that you need the PTI and IANA budgets to be approved firstly to be included here. I understood from there that you are supposed to have this approval later in January, but you are beginning to have this in December. So it seems to be a one-month or 30- or 45-day gap in the middle. [inaudible]

BECKY NASH: Thank you for your question. I just want to confirm: are you asking about the current documents that are up for public comment at this time?

RICARDO HOLMQUIST: No. The previous slide says that you will have the approval of the PTI in January, but you're going to begin in December. I understand that one is part of the other.

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BECKY NASH:

Thank you for your question. Actually, on this slide we were separating the process for PTI and the IANA budget from the ICANN operations. So it's two separate processes. In fact, we do have a slide just a few ahead that actually shows that all on one timeline. It's pretty busy, but I think that would be very helpful.

If we advance the slides, for this slide here I just want to highlight that, as part of operating plan and budget, each year on our website we do provide an Excel worksheet of all of the operating plan and budget by portfolio and by project. This is something that we provided in response to the community wanting to drill down in to the budgeted portfolios and projects. It gives a very good view that I believe is very, very useful. Again, that's been available for the last several years on our website, and we intend to publish that again.

If we go forward in the slides, we're just going to highlight a few new items to the process before we get to the timeline – oh, I'm sorry. Marilyn, you have a question?

MARILYN CADE:

I did. Thank you. Xavier, I wanted to go back very quickly to – I'm sorry I wasn't able to come to the budget basics meeting, but when the transcript is available I'll familiarize myself with it. This is an opportunity for me to say thank you to all of the Board

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members who are attending and how much we in the community appreciate your attention.

I'm just going to make a comment. As you look around the room, you may be wondering why there are not more people from the community in the room, so I thought I'd explain that. It's both an opportunity of awareness as well.

Whatever is scheduled against this meeting will drain members of the community away. In particular, there's a GAC discussion on DNS abuse mitigation, where a number of the contracted parties who may have particularly high rates of abuse being reported in their gTLDs are anxious to be in that room. Then there's a meeting between the contracted party house and the commercial stakeholder house.

I'm just giving you this as a piece of information so that you don't think that it's a lack of interest on the part of the community about being here.

Now to my question. Xavier, I'd like to understand quickly – we don't have to do it now – a little bit more about this request about a budget that is SO-specific or AC-specific. In the Business Constituency, where I come from and where Jimson comes from, we do not agree that it is the gTLD Policy Council that is responsible for total input on the budget. It's our view that that comes from the full constituency, while the policy council, of

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course, is responsible for providing input on the policy aspect, which is the majority of the funds but not all of the funds that would be allocated to an SO or an AC. So I'm a little bit interested – maybe we'll take this up later.

For instance, if you were to do a budget, SO-specific, then I'm trying to envision that you would have the policy document costs, etc. You would have staff support, etc. You would have the auxiliary services, etc. But a lot of the services that are used are horizontal. So I'm confused about how that would work.

XAVIER CALVEZ:

Thank you. Your question and thoughts are pointing out to how we would do that. I'm not going to elaborate too much, but you're right. There's a number of costs that represent services that are very directly related to each SO, AC, or constituency. You have mentioned a few. You've left out traveler support, constituent –

MARILYN CADE:

[inaudible]

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XAVIER CALVEZ:

The next one that would – yeah. Constituent traveler is another service that ICANN provides that is triggering costs and is very specific by organization.

If we would work on this, this is most of what we would present by SO and AC and constituency. You would have a very significant part of the ICANN budget that we would not present by SO and AC because they are transversal functions.

Take contractual compliance, for example. Now, of courses, contractual compliance is about the compliance with the contracted parties, so you could argue that the contractual compliance is something that we could label as contracted-parties-related. But there are many aspects of what ICANN does that are completely transversal.

Take another example: the ICANN meetings. By definition, it is transversal and not specific to an SO or AC.

If and when – more likely – we will work on developing and SO and AC budget, I think we will keep this distinction and not try to allocate artificially costs to SOs and ACs that are not driven by individual SOs and ACs.

Just as an illustration, we have done this exercise in the past but focused on one organization – on the ccNSO – and that was for the purpose of developing with the ccNSO the contribution

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model. We have basically developed this model of direct costs, shared costs, and global costs. Only the direct were really specific for the SO in this case, the ccNSO.

So you're entirely right. This is also what we would reflect. Only would we select the very direct costs that support an SO in this picture of SO and AC budget.

To your point, the GNSO Council provides also comments on the budget, separate and in addition to each constituency that make up the GNSO and more focused on policy, to your point, and very complementary, really.

MARYLIN CADE:

I have a follow-up. I'm glad the Board is here. It may just be my paranoid sense of having been around too long at ICANN, but we have had an unfortunate experience over a number of times at ICANN when one section of the community has begun to think that they are the people who are responsible for funding the organization and they become very – I'm looking at Tony; he will remember some of this – they become very critical of other parts of the community.

So I just wanted to be very careful in understanding what the purpose of this is and how this information – I'm not saying it's not needed, but I think it's important to understand that we also

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need to educate, particularly because we have so many new contracted parties, the source of income to ICANN comes from registrants, not from contracted parties. I think that's something we need to be really careful about if we're going to find ourselves in a situation where people are going to the microphone and accusing one part of the community of not producing revenue.

XAVIER CALVEZ: Thank you, Marilyn. If your colleagues, the registries and registrars, which is that part of the community that you were referring to, would be in the room, then they would argue with you, of course.

UNIDENTIFIED SPEAKER: [inaudible]

XAVIER CALVEZ: Wrong.

RON DA SILVA: Marilyn, I just want to come back to your earlier comment. Is this being transcribed?



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XAVIER CALVEZ: Yes.

RON DA SILVA: Okay. Ron da Silva speaking. Sorry. Thank you for sharing the perspective. Certainly the Board is very much aware of overlapping sessions and the inability to be in all places at the same time. There's a couple ways we can solve that. We can schedule meetings all through the night, or we can have a ten-day meeting. Neither one of those is good, either. So I think it's an unsolvable problem for the amount of information and the amount of topics and the amount of community participation. We want metrics and those different activities together. It's just not solvable.

So, yes, it's good that we have representation from a lot of different parts of the community, but the fact that we don't have a really, really big room full of people wanting to talk about budget is understandable.

XAVIER CALVEZ: And just logistically, we've had a few excuses from a number of community members who will come at 12:00, after their sessions have finished elsewhere, for the second part of the meeting.

We are going to try to move towards – oh, just one last comment on this. Sorry. If you can stay for a second. Quickly, you see here

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that we're planning to provide information not only on FY19 in the budget but also on FY20. For clarity, we will continue, of course, to have the annual budget of FY19 reviewed under public comment and approved by the Board. But we will also provide information about FY20. It doesn't mean that the Board will approve also the budget of FY20. This will happen next year. Simply, we are providing a two-year view of the financials of ICANN, which is simply to inform better and give a longer horizon ahead of information about ICANN's activities and the financial impact of those activities as a step towards longer-term financial planning, which we are further developing and will continue to do so. I just wanted to illustrate that quickly.

Maybe we can go on to the next slides and address the point that Ricardo was raising earlier about the difference in timing of PTI and ICANN's process.

BECKY NASH:

Yes. Thank you, Xavier. This is the timeline slide that I was referring to. It's a very busy slide. We've blown it up for the moment. What I wanted to explain as part of the process is that we have the PTI and IANA budget, which is a process that happens before the ICANN total budget process. This is as a result of the IANA transition and the creation of PTI.

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The PTI entity submits a budget to the PTI Board, which then approves that budget. That budget is then provided to ICANN as input into a budget called the IANA budget, which is part of the Bylaws. The IANA budget then is submitted to the ICANN Board for approval, and the IANA budget is expected to be approved early February. That IANA budget, as per the Bylaws, is subject to the Empowered Community process. That is why it is a separate document and done before the total ICANN process.

Then we move into the ICANN process, of which the expected dates for public comment will be mid-January. The next key milestone after that will be targeting towards a Board adoption by the end of May. This is one month earlier than the process that was followed for FY18, and that's in order to ensure that we permit enough time for the Empowered Community process waiting period, which is approximately 28 days.

It is not until after that period of time that the budget goes into effect. On this current timeline schedule, we will have the budget approved by the end of May by the Board, should it be approved. If the Empowered Community period elapses with no actions, then we will have a budget in effect right at the beginning of the fiscal year.

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MARILYN CADE: Becky, if there is action during that 28 days – action meaning significant objection, blah, blah, blah – then what happens?

BECKY NASH: Thank you for your question. At that point in time, should it be something that actually becomes a consensus-driven action, then the budget does not go into effect. That is why we have the caretaker budget. The caretaker budget is described in the Operating Plan and Budget as to what would go into effect under those circumstances.

Asha?

ASHA HEMRAJANI: Thank you, Becky, and, Marilyn, thank you for bringing up that point. That is precisely we have these sessions and this is the point I was alluding to earlier. We want to have and we are soliciting your opinions – the community’s opinions – and thoughts on the budget. We have incorporated your ideas and thoughts into the budget so that the chances of having the budget vetoed are lessened significantly. This is just to make the process more efficient and effective. Thank you.

BECKY NASH: Question? Thank you. Akinora?

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AKINORI MAEMURA: Thank you. Akinori Maemura from the Board. I think this is a basic question on the caretaker budget. The caretaker budget is to be established for any case? For example, that last budget thing, we had a very clear need for that caretaker budget because that Empowered Community process was not really considered and we didn't definitely need that.

This time, we are doing the budget process and really taking into consideration the EC process. But do we still establish the caretaker budget for [sure], or not?

XAVIER CALVEZ: Thank you, Akinori. Two thoughts there. There's a very practical one and there is a more fundamental accountability one. The practical one is that, should the Empowered Community trigger the rejection power, we would know that a day or two before the fiscal year starts. In case that happens, we actually need to have our caretaker budget in our hands. Therefore, it needs to have been calculated before. So that's the practical reason.

The more fundamental reason from an accountability and transparency standpoint is that we want to ensure that the community sees and knows that the caretaker budget is available for the Empowered Community to exercise if they so

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desire the rejection power. We want to ensure that the community has an opportunity to understand that caretaker budget. Therefore, we put into the Annual Budget document a section that describes how the caretaker budget would be determined if the rejection power occurs.

So that's the rationale for it. Thank you.

BECKY NASH: Sébastien, did you have a question?

SÉBASTIEN BACHOLLET: Yes, but I am very polite. I wait for you to ask for me, but I have raised my hand for a long time now. But that's okay.

I am very happy that some of the issues we were raising when I was a Board Finance Committee member are now on their way to be solved. That's very good. That's a good improvement. I can commend both the Board members who were members of the Board Finance Committee since and Xavier and his team for this excellent announcement of the process. I am very astonished that we were able to have, one month in advance, the work done, as it was always a struggle at that time because, I guess, you have announced also the process to get this done. That's great.

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I have one meta-question. How will all this fit with when we will discuss about the strategic plan and the global operational plan and the budget. When will we discuss all of that here? We were just discussing – and that’s good – the finance, but can we have any information about where the process about global discussion about strategy planning is?

Buy maybe my question is too early and it will be in the next phase of the discussion after lunch. Thank you very much.

XAVIER CALVEZ:

Thank you, Sébastien. A very timely and useful question to provide clarity on that exact point. You’re right. We are here only providing information and visibility about the annual operating plan and budget process, and we have left entirely aside the strategic plan and the process of development. I think Sébastien is alluding to the fact that we are currently in year three of our five-year strategic plan in that we need to get on with the development of the next five years’ strategic plan.

We are basically a little bit ahead of the timing by which we’re going to do that. There’s been a number of discussions about long-term financial planning, and Goran has spoken to it. So we are working on developing a proposal for the Board and for the community to look at of a process to develop the next strategic

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plan for five years. This is upcoming in the next few weeks. So we're just a bit ahead of that step.

Thank you for raising that point because I'm sure everyone is interested in that process as well.

BECKY NASH:

Thank you. I'd just like to point out that we do have a slide on long-term financial planning at the end of the next section in part two, after the funding projections.

In order to advance through the rest of the slides, we wanted to go ahead and move to a section over the reserve fund. This particular slide identifies that we currently have a document regarding the rationale and target level for the reserve fund under public comment.

Just as a background, the Board Reserve Fund Working Group, which was created in 2015, had on its slate to establish the rationale and a 12-month target level. There has been discussion to publish in two steps documents for public comment. The first area is the rationale and target level, and the second area is the governance and replenishment.

Currently, the first step – the rationale and target level – is published in a document under public comment, which began on the 12<sup>th</sup> of October. That public comment period ends on the



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30<sup>th</sup> of November. Based on the comments that will be received, an ICANN Org public comment report will be issued by the 22<sup>nd</sup> of December.

Following this document, the next steps is going to be an update to the investment policy as it relates to rationale and target levels. The ICANN Organization, after receiving and responding to public comments, will make proposed recommendations to changes in the investment policy. Those recommendations will be submitted to the Board Finance Committee for review and, if approved, be recommended to the Board of ICANN for a Board decision. Again, this is a two-step process.

The next step after this first document will be to follow a processes as it relates to the governance model and the replenishment of the reserve fund.

Now I would turn it over to Asha, who has a comment.

ASHA HEMRAJANI:

Thank you, Becky. Xavier had requested that I say something, a little bit about this, and I just wanted to emphasize two points. One is that we're inviting for comments in two parts. This process is going to be split into two parts. The first part is, as Becky has mentioned, rationale and target. The deadline is the 30<sup>th</sup> of November. Please to submit your comments about what

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you think about the rationale for the existence of reserve fund, as well as the target level. The target level that we have placed in the paper is 12 months of operating expenses as a guideline.

We don't have to discuss it here now in detail. Please do go download the paper. Have a look at it and do submit your comments for this part of the reserve fund invitation for comments.

The second part is going to be on the governance of the reserve fund – how we deposit money, how we extract money – and replenishment, to reach that level of 12 months, the 12-month target. That will be the second phase of this whole exercise.

We have to get the first phase done properly. We have to get the community's agreement and a consensus: is 12 months the correct target? And what is the reason for having a reserve fund? Because, frankly speaking, it does make good fiscal sense to have a reserve fund. It's an existential issue. It really enables us to consider operating should there be any unforeseen circumstances that require additional funds.

I'll stop here. We don't have to really discuss the comments that you would provide on the first part now. I really recommend that you read the paper first, but if you have some general questions, it would be good to ask now.

MARIYLN CADE:

I have a general history comment to make, and you will be getting comments from the BC. The general history issue behind the fanatic enthusiasm of the Business Constituency towards having a reserve fund and a robust one is that we have found ourselves in crisis before when parties had start delaying paying their fees and had put tremendous economic pressure on ICANN.

There also are some other reasons, including, in previous reviews that we went through, that we really had to think about, if we went through the situation where we spilled the Board and we were starting over, that we had to have these operating funds. You'll get our more detailed comments, but the underlying commitment to a strong reserve fund is very, very strong in our constituency.

But I will just say that it is a problem of lack of understanding in many of the other parts of the organization. I think you can count on, during this process, at least our comments, and I'm sure the comments also from the ISPs and others, will probably go a little bit into detail on why we believe so strongly that this is important.

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JIMSON OLUFUYE:

Thank you, Marilyn, and thank you, Xavier and Becky, for your presentations and also for being at the constituency meeting yesterday for a lot of clarity that you provided.

Just a heads up. As Marilyn said, we're bringing up our comprehensive comments. The [inaudible] one is very important, very critical, for the future of any organization. We are looking at the need to have a special reserve fund policy on its own. Then, yes, we'll have investment of funding policy. [inaudible] how assets are used and how returns are provided. [inaudible] is so key. We're also looking at the IANA and the root zone maintenance costs in terms of how long the reserve should be. Currently, we're saying 12 months, but we've been looking at 30 months because of the criticality of the IANA aspect. It's a 30-month projection, while at the same time the normal reserve could be up to 17 months as several recommended in the rationale in the study done. So we're looking at the [upper] level and coming up with some creative ideas in terms of how it should really be funded. We're hoping we can get our colleagues [buy-in] that this should be [forced charge] for any form of development of other incomes that come into ICANN. Just because of the criticality of this, we're now a community serving the global Internet economy. Very critical. Thank you.

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ASHA HEMRAJANI: Just a quick follow-up. I want to thank both of you, Jimson and Marilyn, for your comments. As a soon to be member of the community and not the Board, I would also strongly support your view on the fact that we do need a reserve fund. So I appreciate you saying that. Thank you.

Do you want to continue, Becky?

SÉBASTIEN BACHOLLET: I have a comment, if you'll allow me.

BECKY NASH: Sébastien, do you have a comment?

SÉBASTIEN BACHOLLET: Yes.

BECKY NASH: Please go ahead.

UNIDENTIFIED FEMALE: [inaudible]

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SÉBASTIEN BACHOLLET: Yeah, but my card was up before the two others asked for the floor. But that's okay. I have no problem with that. If you want another rule, tell us what the rule is. But no problem.

I have not read the document, and I'm sorry for that. But there's too much things to read in my foreign language. I wanted to ask you if you have just put in the paper one solution or if you have [opened] different solutions, putting your point of view on what the best one is and asking the community [too difference] one or another, or if it's just one single-minded paper? Thank you.

XAVIER CALVEZ: Thank you, Sébastien. The paper provides a recommendation of a level of the reserve fund so that we...To be clear, it's simply recommending to stay and keep the current position, which is of 12 months of operating expenses.

In doing so, the paper basically provides the explanation and details of the work that the Board Working Group, supported by the ICANN Organization, has carried out to get to this conclusion. It also provides a little bit of benchmark information that shows various levels of reserve funds that are used or referenced by other organizations.

So there is a proposal, but that proposal with a single recommendation shows what other alternatives have been

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considered. There are scenarios, basically, in the paper, as well as benchmark information from three other organizations. So it simply illustrates other possible positions for the reserve fund.

I also want to emphasize that there is no right response in the sense that there's no regulatory definition of a reserve fund or how much there should be. It really is driven by the need of the organization for its remission, for its purpose, for its type of operations. Obviously, the nature of the funding of the organization impacts as well the need for a reserve fund and for the level of the reserve fund. So there's no single answer or even a set of answers. It's really what the organization in its specific situation determines that it needs – and also because of its environment and its mission, of course. Thank you.

I think we have Jimson.

JIMSON OLUFYE: This is just to beg for your permission. I need to go and speak at the CCWG IG right away. Thank you.

XAVIER CALVEZ: Thank you for coming, Jimson. I think we're past the time of the end of our first session. We will now wrap up this one and start the next one in – when do we start, Jessica?

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JESSICA CASTILLO: So this will conclude this session. We'll take a 10-15 minute break. There should be lunch set up. I believe it's just outside this room. Please feel free to grab something. We'll try to get started back at 12:15, 12:20 at the latest.

XAVIER CALVEZ: Let's do 12:20.

JESSICA CASTILLO: 12:20.

XAVIER CALVEZ: Thank you.

JESSICA CASTILLO: Okay. Thank you. And we'll pause the recording for now. Thank you.

[BREAK]

JESSICA CASTILLO: Thank you, everyone. We're going to go ahead and get started with the second part of the Budget Working Group. We have with



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us today Cyrus Namazi, who will be leading this part of the session. And we'll be going over funding projections and then if we have time towards the end, long-term financial planning, and then Q&A and wrap up any next steps. So, with that, I will let Cyrus get started.

CYRUS NAMAZI:

Thank you, Jessica. Good afternoon, everyone. My name is Cyrus Namazi, I'm the Vice President in ICANN's Global Domains Division. My team is primarily responsible for contracts and services for our contracted parties and a few other things that we do in the team, including IDN programs and technical services. This particular piece of it was driven by a project that we started on in earnest about three and a half years ago and the objective was for us to have a reliable and predictable projection mechanism for our revenues and funding for ICANN.

So, to that end, my team and I have put together a fairly complex spreadsheet that has all the major contributing factors about funding in it and in it, of course, we keep historical data that helps us with the modeling and projections, and then we feed actual data into it and it helps us predict where the market is going. So for today, what I, and I'm not sure who is advancing these slides. Next slide, please.

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So, today, there's two parts to this discussion. One is just wanted to reflect back on the FY17 budget versus actuals, what we predicted, and what we ended up with. And then we'll have a presentation on the assumptions that have gone into our projections for FY18.

One interesting, perhaps, important data point here is that the actual timing of putting these projections together is this time of the year for the following fiscal year. So when you think about it, the horizon over which we actually have to make these projections spans 18 months. And this market has certain volatilities to it and that has its own complexities associated with it to be able to be as precise as you can to be able to project, essentially, right now in the November/December of 2017 all the way through June of 2019. Just to sort of help describe the scope of some of the complexities here.

So, in this particular slide, what we've done is I have the breakdown of our budget projections for FY17 versus where we actually ended up. So, in FY17, we managed to end the fiscal year with an actual revenue of 134.5 million, and that compares with 132.5, which is what the projected budget was, so a 2% or so difference. What you see in the lower part, in the charts is a comparison of the major contributing components to our funding. Registry transaction fees, these are the transaction fees, of course, that we get from the registries for every time

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there is a sale or renewal or transfer of a domain name. That's the definition of a transaction.

And it includes new gTLD registries, of course, and legacy gTLD registries. The largest contributing factor to our revenue, of course, is the registry transaction fees, as you can see, and our projection and the actuals came in fairly in line. \$200,000 USD difference.

The other large contributing factor to our funding, of course, is the registrar transaction fees. So, for every transaction that takes place, the registrar has to pay ICANN a fee of 18 cents. And in fact, for the registry one, the fee on the average is about 25 cents but some of the legacy ones have a different arrangement of fees, and the total average of per transaction registry transaction fee is about 23 cents or so, just for your information.

We have a fixed fee component that actually was introduced into our funding model based on the New gTLD Program, and this is the fee, the fixed fee that annually is paid to ICANN by new gTLD contracted parties registries of \$25,000 per year, and you can see that was actually sort of on par with the projections. And we'll talk to sort of the different variable factors in them. Yes, Jonathan.

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JONATHAN ROBINSON: Just a quick check on that. On that registry fixed fee, as in when the registry started perform to an extent that, obviously, the transaction fees outweigh the fixed fee, do you continue to record that as a fixed fee plus transaction fees or does it supersede? Xavier, you'll know the answer to that.

XAVIER CALVEZ: No. So, we continue recording the fixed fee separately irrespective of the amount of transaction fees that are being recorded. And some of you know that there's also a threshold for the registration or transaction fee to kick in, which is higher number than 50,000 transactions during four consecutive quarters and that's how then during the quarter, during which the threshold is met, the transactions of that quarter then trigger the fee of 25 cents per transaction. And that is separate in additional to the fee of \$25,000 that is fixed.

JONATHAN ROBINSON: Thank you. That's clear.

CYRUS NAMAZI: Thank you, Xavier. So, just the last comment is the registrar other fees that you see there and this particular one actually has three contributing factors to it. One is an annual fee that the registrars pay to ICANN for having an accredited and essentially

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maintaining their accreditation. That one is \$4,000 a year. Every new registrar application for accreditation also pays an application fee to ICANN of \$3,500. That's included in there. And then there is a component that actually we call a variable fee of registrar, which is actually fixed. It's \$3.4 million that Xavier actually devised among the number of accreditations and invoices on a quarterly basis.

So, all of that added up on an actual basis to \$14.4 million versus the 9.19 that we had projected, and I'll talk to the reasons behind that momentarily. And then there's a bucket of other fees there that is voluntary contributions from ccTLDs. There is a sponsorship and a few other miscellaneous items that are fairly predictable and fairly fixed, right around \$3.2 million to \$3.8 million per year. Sébastien, you had your hand raised?

SÉBASTIEN BACHOLLET: Thank you very much. Yeah. I wanted to know if later in the presentation or somewhere else, we can have the number of registry who did just pay the fixed fee and not participate in the side of the transaction fee and the same for registrars, if we know the amount of registrars will just pay fixed fee and not transaction fee. Thank you.

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CYRUS NAMAZI: We'll try to get the very precise figures but for the registries, it's fairly simple. About 1,200 registries that pay the fixed fee of \$25,000, which then translates into the \$30 million that we saw earlier in the presentation this morning. And the number of registrars, it's – so, Mukesh was just saying that there is 74 registries that cross the threshold of the 50,000 that I indicated earlier, and that therefore, pay transaction fees to ICANN in the New gTLD Program, under the new gTLD registry agreement. Sure. Thank you.

UNIDENTIFIED MALE: Thank you, Sébastien. I guess related to your question just to make sure that it's all clear, the registrar transaction fee is paid for every transaction in new gTLD. So, this is not subject to that threshold of 50,000.

SÉBASTIEN BACHOLLET: Thank you. Yes, I get your point but what it could interest people is to if there are registrars who just are registered to be able to buy something but not really making business about the domain name first, I would say first market but they are here for the second market and they duplicate and then they just pay the fixed fee but not any transaction fee. Was that behind my question, that's what interests me. Thank you.

CYRUS NAMAZI:

Sure, thank you. So, any questions on this chart? We can move on to the next chart, please. So, I'll give you a moment, actually, to take a look at this chart. It's a bit busy and has a lot of information but it's interesting information. This is, essentially, the transactions that feed into those dollar figures that I showed in the previous slide. And it's broken in by legacy gTLDs as well as the new gTLDs and then you can see in there that the total new gTLD transactions and what was billable, which relates to what Sébastien was asking, so those 74 new gTLD TLDs actually contributed to 18.6 million transactions that were billable, if that makes sense.

For reference, we also have in this chart what happened in FY15 and FY16 actuals, so you can see exactly how the different components of the market are changing. So, for instance, you can see that in FY15, the total number of transactions was 158.5 and it had a bit of a surge in it going into FY16 and '17 because of primarily the market dynamics in China, which was driven by portfolio and speculation type of activities. It wasn't really an organically demand and in fact, this is a thing that is now pretty much has run its course and is back to sort of normal what I call steady state. And again, the rest of the breakdown of the transactions are there. For FY17, for instance, you can see the legacy gTLDs, about 161 million transactions continue to, of

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course, dominate the total number for us. New gTLDs. That's one area where we had actually fairly good bit of correction in our budget versus actual in FY17 because of some of these volatilities that I mentioned and in fact, a long lead time that we have to go through in coming up with our projections, especially for the new gTLD market.

The new gTLD market continues to be rather difficult to forecast because it still is somewhat embryonic and goes through ups and downs that are not as predictable easily as, for instance, the legacy gTLDs.

Yes, please, Berry.

BERRY COBB:

Could you just expand on the billable line item there versus the rest of the transactions? And that was always confusing, especially in the draft budget.

CYRUS NAMAZI:

Yes. Thank you for that question. This actually goes back to what Sébastien was asking before. So, in the new gTLD contracts, there are two components of fees. One is a fixed fee of \$25,000 that every new gTLD the moment they get delegated, they're subject to that fee on an annual basis.



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Then there's also a transaction fee that every time they actually sell or renew a domain, they have to pay a fee of 25 cents to ICANN. That component, that 25 cents does not kick in until they reach a threshold of 50,000 transactions, which is what Xavier was explaining before. So, that's why you have a ratio of the total number of transactions versus what's billable because what's billable is what has reached that threshold of 50,000.

BERRY COBB: Sorry to make you repeat that.

CYRUS NAMAZI: That's a good question. Please, yes.

[PAULO]: Could you please explain again? I couldn't get the difference between the total and the billable.

CYRUS NAMAZI: The difference between billable and total? So, every new gTLD contract has a transaction fee component in it. This transaction fee is something that the TLD operator pays to ICANN per transaction of 25 cents. That liability does not kick in to place until that new gTLD has reached a total transaction number of 50,000 in four consecutive quarters, and then it becomes

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billable. So, that means up to 50,000 transactions the registry does not pay ICANN that 25 cents. It's a good question.

[ALEXANDER]: Excuse me. So, you probably just answered my question, [Alexander] [inaudible]. So, it's a number of transactions like a transaction. It's not \$1 million U.S. dollars. So, you need to just to cut in four so like 25 cents per transaction and we will receive the sum in U.S. dollars, right?

CYRUS NAMAZI: That is correct.

[ALEXANDER]: It's [a little bit] confusing just like the transactions.

CYRUS NAMAZI: I understand. We say transactions because there's a distinction between transactions and domains under management because even if you renew your domain name, that's the transaction that becomes billable to ICANN. But your point is very valid. Yes, I understand.

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SÉBASTIEN BACHOLLET: Just to be sure, when you talk about the quarter of dollar, it's just for new gTLD. We can't do a simple calculation saying, "Oh, we have this number of transactions," we cross by four, and we have a total of dollars because for the biggest gTLD, it's not the same amount.

CYRUS NAMAZI: That is correct, Sébastien. That average for legacy gTLDs I believe is 23 cents, Mukesh, is about 23 cents if you total all of them divided by all the fee-paying transactions. In fact, the previous slide had that information in it, so.

UNIDENTIFIED MALE: Though ICANN charge also the 25 cents for country code domain names.

XAVIER CALVEZ: Thank you. No. The country code operators have mechanisms of voluntary contributions to ICANN. They can contribute or not and they can contribute anything they want. There is, however, a set of guidelines that have been established by the ccNSO that are offered as a possibility to determine for country code operators the contribution to ICANN but it remains voluntary and the guidelines are just guidelines, their information. And they are based on the number of domain names under

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management of the country code operator. So there's [bands] in that model and between certain numbers of domain name under management, you're offered a range of amounts to be paid. But again, it's fully voluntary and it's mainly without any specific contracts.

UNIDENTIFIED MALE: But do they contribute in general most of them follow these guidelines?

XAVIER CALVEZ: To various degrees. So, some do not contribute at all any amount, though as per the guidelines, there would be an amount done. A few used to contribute more than what the guidelines were suggesting but now that there's been new guidelines in place since 2013, those who used to contribute more now contribute at the level of the guidelines. And there are also country code operators who are not part of the ccNSO who also contribute a separate amount from the guidelines. So, we have a whole load of different cases.

To illustrate, if every single ccTLD would contribute as per the guidelines, ICANN would collect nearly \$5 million. We currently collect approximately \$2 million.

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CYRUS NAMAZI: And it's captured actually in that right-hand column where it says other fees. It's in that column. Jonathan and then Berry.

JONATHAN ROBINSON: Thanks. Two questions. Do you publicize the detail, the breakdown of those contributions? And second, related one is do you know how frequently those guidelines are reviewed? And I suppose third, Xavier, just to complete the picture, my understanding is that that presumably, that \$5 million that makes up the maximum contribution under the guidelines is in some way correlated with a perceived cost of providing services to the CCs. Thanks.

XAVIER CALVEZ: All good questions. Thank you. So, yes, that detailed information of the contribution by country code operator is provided on our website. There is in the financial section a schedule that details over a period of five years the contributions made by every single country code operator and we published an update of that information at the end of FY17, we published that last week. And there's some corrections that we are in the process of making, but it's available.

I'm missing your second question, sorry. Oh, sorry, yes. How often is it reviewed? It's reviewed every five years, so the

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guidelines are currently under [inaudible]. Sorry. It's reviewed every five years. The guidelines currently in place were approved by the ccNSO in November 2013 and they have been in place since and the ccNSO has initiated during this meeting the process of review that will feed into an update of those guidelines next year. After five years, which was the original plan. Lisa has – oh, sorry. Berry and then Lisa.

LISA:

Yeah. I just want to add when we talk about the ccTLDs, those are very different from gTLDs because you have some who are not participating at all within the ICANN world and not getting anything else and the IANA service. And I think while these reviews are extremely important, it's a matter of a voluntary agreement between ICANN and the ccTLD because they have the ownership or what we would call it of the ccTLDs is very different from gTLDs. And I think that's a distinction that needs to be made and, of course, the guidelines are not being fulfilled by all ccTLDs. I represented a ccTLD who were not a part of ccNSO who did only pay like two-thirds of what it was supposed to in order to the contribution, but I think every ccTLD have their own reasons for contributing or not and we have a lot of small ones that can't pay anything to ICANN because that would actually damage their business.

BERRY COBB:

Thank you. Just maybe as a suggestion for the draft FY19 or actuals from the quarterly when this billable is presented, maybe have like a half page on an example of anonymized actuals or something so that it explains that line item better, like registry A exceeded 50,000 in quarter one, quarter two, three, or four. Something that kind of just puts substance or context behind that because there's a lot of questions here. There's been a lot of questions in the GNSO and I think explaining that would or some kind of visual something or another would be very helpful. Thank you.

CYRUS NAMAZI:

Thank you, Berry. So, another interesting important data point in this chart is in the lower half of it in orange, and if you look at sort of the darker orange part of it, that role indicates the total number of contracted parties. And that's important for us in several areas. Of course, it has an impact on the fixed fees that we talked about that the new gTLD registries pay to ICANN. It also has an impact in the contributions of the registrars, who have come in and applied to be accredited by ICANN and also have a recurring annual fixed fee associated with them.

So, the breakdown of what you see in dark orange is, of course, below it, for so legacy gTLDs have been fairly constant, haven't

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changed actually in quite some time. New gTLDs have gone through a tremendous growth rate, growth curve from FY15 through basically FY16-17, and that's one of the major contributors to ICANN's increasing funding over that period of time.

We have now reached what I call the cruising altitude for that. There is no more significant material changes in number of delegated new gTLDs. Everything that needed to be delegated has been delegated, so that component of our funding is going to be fixed, essentially.

Another interesting data point in that chart is that bottom row, the registrars. So, these are the number of accreditations that ICANN has with various entities that enables them to be a registrar. And that component also has gone through substantial growth, and if you look at from FY15 to 17, it's almost doubled. That has had a fairly significant impact on our funding.

And the major reason behind that growth is really drive by a very, very small handful of registrars, four of them, actually. There's a part of the domain name space that in sort of ordinary nomenclature is referred to as drop catching. And these are the businesses that go after domains that are expired and try to actually find and catch the domains that they think would be valuable in a resale market at a premium price.



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Of the 3,000, 2,900 or so accreditations that we had at the end of FY17, roughly 2,200 of them are engaged in this business model, among just four entities. And the reason I explained this is that this is also something that is a varying component of our funding, so we keep a close eye on what's going on there. But at the same time, has a material impact because if you look at the 1,510 in FY15 actual, the number of registrars that we had, the 600 that were added in the actual FY16 is a significant amount of money. Like I said, they pay us, ICANN, \$3,500 for their application fee and then \$4,000 on an annual basis for maintaining that accreditation. There is more to talk about this as we go forward to talk about FY18.

Any questions, comments?

LAWRENCE:

My name is Lawrence. Looking at what we have for new gTLDs delegated and the registrars. In the FY17 actual and FY17 budget, I see a variance in the figures. For the FY17 actual, looking at the delegated, the figure is less than what you have in FY17 budget in terms of the registrars. But it's the other way around in terms of new gTLDs, other way around in terms of the registrars. Why do we have such a variance? Because I think you should be using the same analysis to project kind of have some more insight on how this is arrived at.

CYRUS NAMAZI:

Thank you. Thank you for your question. The two actually are completely orthogonal to each other. They're independent of each other. The number of new gTLDs that are delegated and the number of registrars have no practical correlation. Now, your point is a good point because what we predicted in new gTLDs delegated actually came in slightly below the actual, and that is really, there's only a small handful of new gTLD applications that have not been signed into a contract and delegated. They're subject to various IRPs and litigation and that sort of thing. Rather hard to predict.

But the variance that you see there that's I think is 21, is not a material contributor to actual revenue, so that part I think falls within the category of sort of noise, if you will. Now, the registrar is important, actually, to point out because we ended up with 1,300 more registrars in that fiscal year than we had predicted. And this goes back to my comments earlier about this particular small handful of registrars that drive this drop catching business, and our prediction has always been that that market is not sustainable to the level that has been accredited because every one of these accreditation costs these registrars quite a bit of money just to pay ICANN. And then they have to go invest in systems and they actually work mainly with .com to be able to do the catching and things like that.

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And when we did an analysis of what is the total available market in the drop catching, that expense that the registrars in the drop catching business incur and what's actually available for them to go recoup from that invest just did not add up. But it was as Mukesh calls it, a nuclear arms race among these three, four entities to get more accreditations and the reason they do this, by the way, is because it enables them to have more opportunities in what's called the catch pool for .com. So, every accreditation, if I could use the analogy of a fishing hook, it gives them another line into the water that increases the likelihood of catching a fish.

So, this is what they go through and with Verisign's systems, from what I understand, if you have 500 accreditations, you get 500 hooks into their system. If you have 400, you get 400. So, these three, four entities went into this race and increased the number of their accreditations substantially, as you can see.

Now, we also have organic growth in the number of accreditations, which historically has been about 50 or so new accreditations per quarter. And then we also have deaccreditation that takes place. Registrars go out of business or they become subject to a breach of a contract by ICANN and so far. But that's sort of the general sort of explanation behind it. Jonathan?

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JONATHAN ROBINSON: Thanks, Cyrus. I think you explained that well. I would just say that the one addition is that we, with good reason, focus strongly on .com there but there is a cost to other registry operators in the industry with this proliferation of drop catches and significantly in this instances, as evidenced here, ICANN gets some revenue from it where the registry operators in the industry get no revenue from it, and so it's a structural problem in the industry and I don't expect we can discuss it in any detail or even try to resolve it here more, but nevertheless, I think it's worth knowing that whilst it's in a sense an aberration for ICANN, it's an actual operational problem for those other registry operators in the industry.

CYRUS NAMAZI: Absolutely, Jonathan, and I'm quite sympathetic to that fact, and thank you for bringing that up. Sébastien.

SÉBASTIEN BACHOLLET: Yeah. Very interesting and I think to see what will happen in the future, those elements are important. But I just want to draw your attention to one French actor who just finished an initial [inaudible] offering where they get 35 million euros just to allow people to do drop catching or to buy domain names at the

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second level. That's a lot of money they get in block chain system but they will use for selling domain names. They will drop catch. Then I don't know if they're among the four you're talking about, but if they are not, it's another interesting thing you need to take into account in your vision of the future about this issue of drop catching things. Thank you.

CYRUS NAMAZI:

Thank you, Sébastien. One last comment before we move on to FY18. As you can see, there are two areas in here where there's a relatively large variance. One is in the number of new gTLDs, new gTLD transactions, as you can see on top, and then the other one is in the number of accreditations for the registrars in the bottom. And the two had sort of a canceling effect, so the reduction in the transactions for new gTLDs of 8.5 million that you see up there, which is where our projection was off, was offset by the additional number of accreditations for the registrars that you see in the bottom, and that's why our actual projection and the budget came in fairly close to each other at the end of FY17.

Let me move on to walking you through what we have actually anticipated for FY18 and some of the driving assumptions behind it. So, what you see here is essentially, again, a similar chart to what you've seen. This chart is actually consists of what

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you see on the left-hand side in blue is the transaction fees that are in the budget for FY18 broken into components by registries and registrars, and then there's the component of fixed fees that you see on the right-hand side in orange, which is paid to ICANN by all contracted parties. And that's the breakdown of the numbers. As you can see, transactions by registries is obviously the largest component of our budget, is 40% of it, the fixed fees are about 22%, 31 million. Transaction fees by registrars about 26%, and then there's sort of other fees of accreditation fees, application fees, and such that you can see about 10%, and then there's the other funding that we talked about that has ccTLD contributions and such, that's the 3.7 million.

So, altogether, our projection funding projection budget for FY18 is \$142.8 million. Any questions or comments?

SÉBASTIEN BACHOLLET: Now it's the first quarter is behind for FY18, how are the predictions going.

XAVIER CALVEZ: So, we have this funding in the... notably the transaction fee, I'll explain a little bit the mechanics. We bill quarterly. So, every three months, we bill the period that just ended at the end of the calendar quarter, so in the month that follows the end of

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September and the end of December and so on, we bill that period of three months that started 1<sup>st</sup> of July and finishes at the end of September.

So, right now, we are very much in these days in the process of billing and collecting the data that lets us bill and after we are done with that, then we will have the information for the first quarter. So, right now, we have provisional information in our financial statement. We have estimates that we are using in our financial statements for the monthly closing of financials but we will have the actual data in about a week or so on how the first quarter has compared to the budget. Thank you.

SÉBASTIEN BACHOLLET: I know if you will have some comparison between 2017 and 2018 in the next slide or not.

CYRUS NAMAZI: I do, actually. Let me move on to that. And this, I think, is, hopefully, what you're asking, Sébastien. This actually shows what we ended up forecasting and budgeting for as far back as FY15 and 16 all the way up to the FY18, which is the current fiscal year, so I'll give you a moment to have a look at it.

On top, what you see is the changes in the budget and really the intent here is to show you how our budget and funding has been

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growing very rapidly for the past four years, but it's not going to do that anymore, as I mentioned earlier. We're now in a steady state sort of cruising altitude of about \$140 million a year. I don't expect that to change materially unless there's a significant change in the domain name marketplace that would impact us. Other than that, we are at the cruising altitude and that's what ICANN's funding is going to be more or less give or take \$4-5 million or so for the foreseeable future. Sébastien, you had a question.

SÉBASTIEN BACHOLLET: Yeah, because I wanted to see the comparison between with the bubble, can you go back one slide, please? Here, if you compare to 2017, you have an increase on the side of the transaction fee and you have a decrease, no, the same thing for the registry contracted party fixed fee and you have decrease about the registrar. And taking into account our previous discussions, that means that you are expecting that there will be less registrar than there are this year coming on. Thank you.

CYRUS NAMAZI: Thank you, Sébastien. So, in three slides from now, I have this information for transactions, but I have the information in dollars in my colleague's laptop and I can read it to you, if you'd like to write it down or send it to you for comparison purposes, if



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you'd like. So, that 57.3 in FY18 was \$54 million. I was surprised that you hadn't seen. So, is that what you were looking for?

SÉBASTIEN BACHOLLET: Yeah. It's why I was about to compare because I have the previous one in my slide and you project the other one, and then my question is mainly taking into account our previous discussion about registrar and fixed fee, you are expecting because you are going from \$16 million to \$14.1 million. That means that you expect a decrease of number of registrar. It was my question. And if it's later in your presentation, I am sorry to disturb your presentation.

CYRUS NAMAZI: Not at all. In fact, you raise an excellent point and I will cover that. It's a very good observation that you make. I think in one or two slides from now, I'll discuss that, why that [delta].

So, let's talk about what are these sort of some of the key assumptions that have informed our budget projections for FY18. So, breaking it down by legacy versus new gTLDs, the legacy gTLDs we have a very sort of predictable, reliable model built for them, and we keep track of it. And they have been the average growth rate for legacy gTLDs has been hovering between 1.7%-1.8% to about 2.3%-2.4%. Not much more.

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In terms of dollars, that's still significant. That's because that's a very significant base of like 150 million domain names, so even 2% change in it means a lot. But we have very good visibility and predictability of that piece of the market. So, for FY18, for instance, our assumption projection is about 1.7% increase.

Now, for new gTLDs, as you know, there are two components to the fees that are generated by new gTLDs. One is the fixed fees and that one we're already at sort of the maximum 1,240. That actually didn't change. It's not going to change from FY17 to FY18, so that particular bubble, this one here on the top left, and the top right is not going to change at all.

The number of transactions that are going to also generate the billable transactions that we also discussed earlier, is something that we've also calculated to be at about 87% and I'll cover the details of that in a moment.

So, this is, I think, the top part of it. This is the registrar accreditation. This is what Sébastien had keenly observed, that the application fees, we think we actually hit our maximum number of accreditations in FY 2017 and that we will observe and see a reduction in number of accredited registrars in ICANN, again, primarily driven by these portfolio entities that I talked about that are involved in the so-called drop catching business.

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So, while the model actually anticipates average growth of 15 new accreditations per quarter, we're actually anticipating a 750 accreditation reductions in FY18 and this is reflected in our projections and this is what Sébastien was talking about. And we projected actually this reduction to start taking place from Q2 of FY18 at 250 average per quarter, and I think this is something that we will see in this fiscal year.

And then the other component in the accreditation of registrars and the fees that are generated by it is what we call a variable fee, but what I say is actually a constant fee. It's variable to the registrars. That's the \$3.4 million. Questions, please.

SÉBASTIEN BACHOLLET: The variable fee is the annual fee. Is it the annual fee?

CYRUS NAMAZI: Yes. The variable fee is actually fixed at \$3.4 million annually, and then like I said Xavier actually divides by the number of accredited registrars. That's why it's variable because the number of accredited registrars changes, and invoice says it on a quarterly basis. Any other questions?

So, this one is also another informative slide. It's the same format that I showed you before and it's essentially the breakdown of transactions as well as the number of contracted

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parties, and these are the two major sort of contributing forces into our fundings. And it has the actuals for FY17 in that middle column and what we're forecasting and budgeting for is in, of course, in the column FY18 budget. So, I'll give you a moment to have a look at it.

On the top, dark blue is the total number of transactions, of course, legacy and new gTLD, and you can see then that we actually break it down by legacy versus new gTLD and then for new gTLD the billable rate. Please.

SÉBASTIEN BACHOLLET: I understand this is an estimate that you're expecting a big grow on the new gTLDs?

CYRUS NAMAZI: Yes, that's right.

SÉBASTIEN BACHOLLET: You're expecting a [inaudible].

CYRUS NAMAZI: So, as you can see here in FY17 actual for new gTLD transactions, we ended up at \$22.2 million. Our forecast, which is in the budget, of course, for FY18 is 41.7 billable transactions, so that's

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a hefty growth rate that we're forecasting about 87.8% that you see.

XAVIER CALVEZ:

If I may add to that, there's a bit of a timing challenge that is reflected in these numbers. So, you remember that we've shown that we had budgeted in FY17 approximately 30 million transactions and that 22 million showed up. Right? When we budgeted the 30 million, sorry, let me rephrase. When we budgeted the 41 million, we didn't yet know that we would have less transactions than the 30 million down to 22 million.

So, if we would have known that, probably our new gTLD budgeted transaction for FY18 would probably have been lower, as well, to reflect that lower trending up. So, we are with Cyrus and Mukesh, we are thinking that it's likely that at least for the beginning of the fiscal year of FY18, meaning this past quarter that we are in the process of billing, that we would also see a lower number of transactions than what we had assumed in the budget for FY18. It's likely, we don't know for sure, and we, of course, don't know by how much. So, this is what the billing of this past quarter is going to tell us in a week or so, and we're very keen to look at that. And, of course, the next question, once we have that information is, is this a trend for the rest of the

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fiscal year or is this an isolated event that the transactions are lower than our expectation? Thank you.

CYRUS NAMAZI:

Thank you, Xavier. That was an excellent point, actually, that you raised. So, the second component that you see here is in the lower half of the chart, and that's the number of contracted parties that ICANN has, sort of same format that we covered before here. Of course, you have the actuals for FY17 versus the budget for FY18 broken down by legacy gTLDs, which is, of course, a constant 22. Nothing changes that will ever change there for the most part. And the new gTLDs I mentioned earlier, everything that needed to be delegated for the most part is delegated, we're anticipating a few more in the tune of 2% in FY18, and then the last row there is the number of registrars, which is what we talked about and Sébastien had mentioned that we were predicting forecasting and budgeting for a reduction of about 23% in the number of accreditations there.

Any other questions? Sébastien, please.

SÉBASTIEN BACHOLLET:

Yeah. To come back to the two I think important points here, it's transaction fee for legacy and transaction fee for new gTLD billable. It's much higher than the actual but it's in line with

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budget of last year. You have taken the trend of the budget of last year, but we see that the actual for 2007, it's quite different than the budget was.

Maybe, once again, you will answer in the next slide but what are the consequences on the budget? Here it's some transaction but it may reflect on what we have in the budget for in dollars and what we can really spend because in certain manner, I have the impression that the budget is not right, but we will not redo the budget now if we project what's happened the actual 2007, we may have done a budget differently than how will we handle that. Thank you.

XAVIER CALVEZ:

I guess that's inherent to budgeting. It's not an exact science and we'll always have differences. So, we would like to use the most recent information that we will get out of the billing of this quarter to use not the FY18 budget information to plan for FY19 but to try to use a revised forecast for FY18 as a basis for FY19 so that we reflect the most recent knowledge that we have of the trending of the transactions in order to produce projections for FY19 and FY20, by the way. But as you can tell, as is illustrated by the FY17 to FY18 story, our projections of a year is very much based upon the projections of the previous year. And because

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we plan so much in advance, we never have a lot of actual data to go by in order to produce the projections.

So, the models that Cyrus and Mukesh are developing are trying to get more and more accurate all the time on this exercise knowing that we will never be 100% accurate. If we would, we should play the lottery or the stock market because this is what projections are about. You try to put as much intelligence as you can but you will never guess the exact reality of the market. If you want, Cyrus, you can elaborate on the level of granularity that the projections are developed on.

CYRUS NAMAZI:

Thank you. I think you both raised very valid points. It's a lot easier to actually make projections for a market that is mature, that is predictable, of course, all that. A large part of our funding, our market actually sort of aligns with that, the legacy gTLDs. The new gTLDs are, frankly, all over the place. When you look at what happened in China in about a year and a half, two years ago, the speculators came in, the portfolio people came in and provided a substantial sort of spike in the number of domains that were being transacted and registered. And that, of course, affects us.

And we do our best to actually anticipate these market drivers as far in advance as we come and we have multitudes of



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techniques and ways to actually be able to stay on top of the market. Some of the players in the market are public companies, so they disclose information that's very useful in this exercise. We have local people on the ground in Asia and other places that are constantly keeping track of what's happening there.

Now couple that with the fact that when we actually put the budget together, it's 18 months before the end of the cycle for which we're projecting, and in a volatile market, at least a piece of it that is volatile, being able to actually precisely come back with something that we know with 100% confidence leads to an exact number 18 months down the road is not, frankly, scientifically doable. So, those are the challenges that we face.

SÉBASTIEN BACHOLLET: Yeah, I totally agree, Cyrus, and it's not what I was challenging. What I wanted to raise as an issue is that first, with I think the way ICANN bills the new gTLD, it's with a threshold of 50,000. It's something, if you have hundreds of new gTLD registry who are at, I don't know, 49,000 next year, we hope that a lot of them will go and become billable and that's part of the difficulty, I guess, in what you are doing. But my main point was much more about how we will deal with the current budget, not to spend too much because we know that we are [inaudible]. I am thinking that we will not get as much as budget income that we are planning to

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have and it's just to for the end of the year, not to be too much different in the total amount of expense versus income. Thank you.

XAVIER CALVEZ:

Thank you, Sébastien. So, of course, Sébastien's question is simply if we do get slightly lower funding than we had budgeted for, as per the trends that we are discussing now, what's happening with the expenses? Because we're going to have a bit less funding, so are we going to have to cut expenses?

So, of course, as we develop those projections, we monitor them very closely with the help of Cyrus and Mukesh and their team and in order to do exactly what Sébastien just illustrated with this question, which is how should this impact the activities and, therefore, our expenses that we carry out in pursuit of the mission?

So, we monitor that closely. At this stage, we are lucky that we have a cycle of expenses or seasonality of expenses at ICANN that makes it that we spend a lower amount of money the beginning of the fiscal year, which is the months from July through, let's say, December, and we spend more money in the future months of the year, from January through June. One of the drivers to that is that we have two ICANN meetings in that

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period and we have only one ICANN meeting in the first period, but there's other drivers to that.

So, the fact that we are on a lower trend of spend at the beginning of the year lets us be able to be cautious and to plan for a containment of the cost over the coming months that it gives us a bit of time, if you see what I'm saying, to allow to monitor the expenses and be able to make decisions on a marginal basis to maybe delay a little bit a contract or delay a little bit of hiring. Basically, manage our expenses in a fashion that lets us be able to contain them.

If you want to understand it differently, if we would have most of our expenses in the beginning of the year, we are early November, we would be already four months into spending a lot of money and we would have less possibility in front of us to correct our spending. So, right now, we monitor, we're being cautious, we don't believe that it is yet the time to be very strongly reactive to or acting on the trend that we see, but we are going to use the next, the data that comes in from the actual billing that I mentioned earlier to develop new projections for FY18 and based on that information, then we may take more direct actions to reduce our costs.

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CYRUS NAMAZI:

Thank you, Xavier. Thank you, Sébastien. That actually sort of concludes the FY18 portion of our discussion here. There's not much actually to share with you yet on the FY19 projections and budgeting. That work is ongoing at the moment, like Xavier said. We're actually waiting for the actuals for the quarter one of the fiscal year '18 to come through verified so that we can use that as a basis for our projections for FY19. This year just really tells you the types of exercises and actions that we take in constructing our budget at least, to ultimately, the FY19 budget.

So, with that, this concludes my part of the presentation. If there are any last-minute questions or comments, I'll be happy to take them now.

XAVIER CALVEZ:

Thank you, Cyrus. Just to, before we move on to the next item, staying on the FY19 funding projections, as Cyrus is saying. We are a little bit ahead of that in the next few weeks.

What we know, however, and you've understood that now on the basis of the presentation that we made, is that there's a certain fraction of our funding, the fixed fees, that we are expecting further registries to not change. We know very marginally it could change a little bit but we know we're going to get more or less \$30 million for FY19. This is very likely on the basis of the existing numbers of registries.

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The registrars' fixed fee, we are expecting that to decrease, as we said, with the trend of drop catching partially going away or reducing, we're expecting to see a continued decrease of the number of registrars and, therefore, a decrease of the fees collected from that source.

Regarding transactions and, therefore, the variable part of our funding, historically we've seen growth of the legacy transactions that is inflationary looking. It's a 1%, 2%, maybe 2.5% growth, so it's relatively predictable in the sense of [inaudible] very accurately the growth, but it's never going to be 10% and it's never going to be a decrease of 5%, if you see what I'm saying. It's fairly steadily growing at a small rate.

Another part is then the new gTLD growth. That is the growth that Cyrus illustrated is currently logically fairly erratic as to high growth quarter on quarter. This is a new market. Any new market takes time to find its bearing and see how the trends are going. So, that one is the most unpredictable part of our budget and that's something we're going to be monitoring. But otherwise, this is the direction that we're going into for FY19 and 20 and with these various trends of either growth or decrease, we are basically expecting to show a funding for FY19 and 20 that would be relatively stable, which means not increasing and probably not decreasing, either.

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So, in the range of 135 to 140 million is what we are thinking our models are going to show in a few weeks from now.

UNIDENTIFIED MALE: Sébastien.

SÉBASTIEN BACHOLLET: Yes. Just one question about that. Do you test different model? I am most thinking about the registry new gTLDs, the number of them. Now we are in three-year operation for some of them and there are some who change from one company to another company, but you say we will stay at the same level with few coming in, in addition, few not going to the root, but are we so sure that trend of the market will not be that we will have, I don't know, 20, 30, 50 who will close shop in the next year or two? And it's really, it's not to put you in trouble. It's a real question I have and I am not sure that anybody has an answer, but I would like to know how you could handle this type of question. Thank you.

CYRUS NAMAZI: Thank you, Sébastien. No. This is a very reasonable question, actually, and this is something that we also discuss internally in our exercise of forecasting and budgeting. Our view of that particular part of the market is that yes, I think there are a

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number of new gTLD registries that are financially struggling, not meeting, perhaps, their financial objectives. The good news is that I think the cost of actually running a registry has gone down primarily because of a New gTLD Program, the backend and the customer support, and things like that. So, it takes actually a fewer number of domains to be able to hit a revenue-neutral part of the business.

My thinking, at least, is that the ones that are not financially viable in the long term, they will get consolidated. Somebody will buy them. And when you think about the registries that are actually having a more successful business in this space, adding one, two, three, four new gTLDs to them, it actually enables them to run that TLD at a much lower cost base than a small registry that had to, essentially, pay for all the fixed costs just for one TLD.

I don't expect a lot of the new gTLD operators to actually just close and go away because there's still a demand, from what I understand and what we've seen, by others to buy them. It's just at what price.

The other part that we're keeping a close eye on, we also have a good number of about 450 brand TLDs that are contracted with ICANN. We actually keep a closer eye on that part to see if these brands who have come in and, of course, invested and acquired

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a TLD, if they continue to be motivated to hang on to it. We've seen, actually, a number of come in and say, "Well, I don't want." McDonald's has gave up their name and a handful of others.

I think last year we had about 16 of them that came in and essentially terminated their contract with us. I don't expect that number to change significantly in FY19. I think we'll have about 15 to 20 of them do that but the rest, the generic ones, I think they'll just get consolidated.

XAVIER CALVEZ:

Okay. Thank you very much, Cyrus. Thank you very much, Mukesh, for your presence and your insights. This was a very useful insight and in your questions and your thoughts on our assumptions is what we really have those meetings for so that we can really take them into account in our next situations, and you've understood we are heading into that in the next three or four weeks, so it's very useful to have your views there.

The last item of our session today is relative to long-term financial planning. Just from a timing standpoint, we're expecting to try to finish this session probably around 1:45 or 1:50, but, of course, if there is more time needed and questions that we should answer, we'll make sure we follow up with you after the end of this session.



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One, I wanted to be able to present and get views on the what is ahead of us relative to long-term financial planning and I'll ask you for a few minutes to put things in context a little bit.

So, why are we talking about long-term financial planning? I have not listed here in the first section one thing that's very basic best practice in planning is to plan for several years ahead of the time at which you plan. Why? Because the decisions that you make in the next 12 months will impact the following 12 months and the following and so on. So, the decisions that you make at any point of time have often a long-term impact on your activities and on your financial management.

So, planning for several years ahead allows you also to be able to make the right decisions in the next coming weeks or months. If you don't have that horizon in front of you, you may make decisions that are sound in the short term, but with negative long-term impact.

So, this is simply a best practice and we have been talking about it for a long time. Sébastien, as member of the Board Finance Committee when he was, has often reminded the Committee that we should move into long-term planning and budgeting so that we anticipate this type of need.

There's other reason why. We are post-IANA transition, with the workload that the community had to put on hold during that

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period, now coming back on the plate. There's a lot going on and I'm not providing you information. I know you are the ones who see that every day and at every ICANN meeting. We have 360 sessions at this ICANN meeting, it's a huge amount of work. So, there is, therefore, a need to make decisions as to what we do and don't do, prioritize our activity, organize our activities, and this also requires to be done on a longer-term basis. You don't want to decide we're going to put a lot of effort on this topic and then change course erratically after a few months or after a few weeks simply because the environment has changed. So, you need to also try to make strategic decisions on a longer horizon so that you sustain the organization into as much stability as possible.

Another element that contributes to needing to plan long-term is the limitation of our resources. We just said that we are expecting our funding to stabilize over the next few years. Interestingly, this is a new reality for ICANN, whose funding has been growing significantly over the past years, but is now reaching its plateau, its cruising altitude, as Cyrus has said. And now that it's not the only necessary reason to do so, as I said, it's also a best practice. But even more so because our funding is stabilizing, we need to be really careful in looking ahead. Again, the commitment of one day, have an impact on the future. So,

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we need to be really careful with what we commit today because that will create workload and expenses for us in the future.

And as our funding is stabilizing and there's always something we don't know ahead of us, of course. Then we will need to be able to accommodate realities that impose themselves on us, that create expenses in the future by being able to make choices about today. So, we are entering at ICANN a world where we're going to have to make strategic choices. And those choices will be painful. They will be choosing between two good things or three or ten, and someone will not be happy. Now, having said that, I'm not trying to draw a doomsday scenario. This is the reality of every organization, every company, more or less, is in the reality of managing its future and usually, everyone is in a constraint environment.

ICANN has enjoyed, in the past, a lot of growth, a lot of growth of its funding, and up to the past three or four years, ICANN had always more funding than it actually had expenses simply because the funding model was generating an amount of incoming revenue that exceeded even the size of the organization and what it was consuming.

So, ICANN has made choices in the past that we're about how much can we get done in this amount of time because of the bandwidth that we have. Tomorrow, the limit will also be how

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much money do we have available to work. Now, as we know as you know, this community feels and is overworked, so the financial constraints is actually going to be one that will help us actually force ourselves to make choices and reduce the amount of work that we take at any one time. But it will require mechanisms for us to make strategic choices and decisions and those mechanisms will need to involve, of course, the community, the Board, and the organization.

We are also finding ourselves from a timing standpoint at a period where we need to start the development of our next five-year plan. We are in year three of the five-year plan, which runs from FY16 to FY20. We need to have our next five-year plan ready to use in the year that precedes its first year. So, what do I mean by that? The first year of the next five-year strategy plan will be FY21. We are going to plan for FY21 during FY20. So, we need to have the next five-year strategic plan ready by the end of FY19 so we have it in our hands to plan for FY21 during FY20.

Having it ready by the end of FY19 really is a year and a half away from now. Based on its importance, this is an exercise that we need to be able to carry out, of course, with extensive community engagement. This community needs to determine the future of ICANN over the next five years with its board and with the organization. So, we will need to have extensive community involvement to be able to develop this strategic

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plan, which is why we think that an 18-month timeframe is reasonable but not too much and, therefore, we need to start. So, that's the context.

So, what are we thinking about trying to do? Our current strategic plan contains 5 objectives and 16 goals. These 5 objectives and 16 goals are, in my own words, it's my opinion, are aspirational in the sense that they don't define a very specific desired outcome at a specific time. They also, because of the level at which they have been determined, they also do not define how we are going to achieve those objectives. What do we need to do in year one, year two, year three of the five-year period?

It also does not contain an estimate of the resources that are required to be able to deliver on those objectives, and it also does not include any projections of funding available, and this is reflecting the culture that ICANN has had over those years where funding was always higher than expenses. We kind of didn't need to care about. We would always have enough funds.

So, our current strategic plan does not contain any projections of funding. So, what we want to do now is fill in those blanks. So, we do need strategic objectives, we do need that those strategic objectives are prioritized. Currently, our five objectives are not prioritized. There's not one that is identified as being more

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important than the other. Everything is important. So, that's something that we will need to be able to qualify is out of these strategic objectives of the organization, what emphasis or priority do we provide? It doesn't mean that the least-prioritized objective does not receive activity and resources; it simply means that we would give maybe more resources towards an objective that we think is more important than another.

We also want, of course, to develop sufficient information behind those objectives to be able to say what do we think needs to be done to achieve it, what are the resources required to be able to carry out those activities, and, of course, how much resources do we think we're going to have available? Because this will actually be our starting point. How much funding do we think we're going to have? And as a result of that, how much resources do we think we have available? And we will map that against what are the needs of the organization to deliver on its mission. And the two may reflect a gap. We may have more needs identified that cost more money than what we think we're going to get in terms of funding.

So, we will need to bridge that gap either by finding more funding or by reducing the amount of activities that we carry out and, therefore, the expenses. That's what we have in front of us. In order to do that, we need to develop those objectives, the

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priorities, the resource requirements, the funding. Thank you, Jessica.

How are we going to do that? There is a reality, which is that ICANN's budget is the budgeted expenses, is really the result of all the decisions that the organization has made in the past. And when I say the organization, I mean this community as a whole. We decided to have compliance to ensure the compliance of our contracts, of contracted parties to their contracts. That's a decision that we have made in the past that drives activities and costs for the organization on an ongoing basis. We've decided to have three ICANN meetings. This costs us between \$12 and \$15 million every year.

So, these decisions of the past drive the costs of today and the costs of tomorrow unless we make different decisions. But if we don't do anything to change what we do, then the costs continue to happen in the way they have been. So, this is why ICANN's budget is basically mostly committed by decisions of the past.

That also, actually, from purely projection standpoint, makes it a little bit easier to project the future because we can use the present as a basis for it. We know what we're spending today and on what. But then to plan ahead in a horizon of five years, we want to use the process that we have initiated of the past

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months of developing emerging trends. What do we think is on the horizon for the organization for what reasons?

An example of a trend is data privacy. There is more and more activities in various parts of the world to organize data privacy in countries and through regulations and so on. It's not just about GDPR. There will be other jurisdictions organizing themselves. That is a trend. How will that affect what the organization needs to do and, therefore, what are the resources that will need to be allocated to that type of activity? That's a trend.

So, we will need to be able to take into account the trends that we see and then evaluate the impact of those trends on what do we need to do and what resources that work would take, and then prioritize that work because very likely, we will not have enough resources to take care of everything.

So, using the core budget of ICANN, then affecting changing possibly what those resources are that are currently used to take into account emerging trends, and then making choices sometimes between there is new work to be done, what are we not going to do anymore to accommodate that new work? That's what we're going to need to do. So, using the core, affecting it with emerging trends with an impact on activities and resources will be how we are suggesting to develop the next



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strategic plan and the involvement of the community on both aspects will be important.

How do we do what we do today and being able to always reassess are we doing the right thing. And then looking at the trends to say what should we do either differently or more because of those trends. The two together will be our strategic plan. It will also have helped us prioritizing those objectives.

We will definitely need to define mechanisms to make tradeoffs or make decisions between inactivity to be carried out and inactivity to not be carried out. This is, again, new at ICANN. How do we as a community make those decisions is what we need to be able to develop mechanisms and processes for.

Our traditional pattern of making decisions relative to at least strategic plan and budget have been to have the organization trying to develop a proposal offering it to community input and engagement so that then the Board has the information from the organization, the input from the community, to then make an educated decision as to how we move forward.

So, this is, obviously, the mechanism that we need to use. In developing a proposal, of course, we will have extensive engagement from the community so that we have sufficient chances that the input from the community has been adequately used and reflected into the design of a proposal and

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then public comments will need to go through to ensure broad and consistent input from the community.

Martin?

MARTIN:

Please allow me just to confirm that you're very aware of what Xavier is expressing and also that it's not up to us to say how we're going to change this. It's up to the community to set the future priorities. That's why your participation is so important. Obviously, our fiduciary duty will be to see that it's a decent budget [inaudible] will ask for more input.

Also, it's an excuse for having to leave right now, as well. The fact that you saw so many Board members is because there's a real interest but the problem is we really have a couple of competing meetings at the same time at this very last moment and I think one of the things we try to do is also towards the future to have the meeting planning even better than it is today, but thank you very much for your input and as you've heard and I'm sure you'll agree with me, we have a very capable Finance team. It's a solid underground on which you can move forward, so looking forward to your input.

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XAVIER CALVEZ: Thank you very much, Martin. And this brings us to the end of this specific item on the agenda, the end of the meeting. Sébastien, you have a comment or question?

SÉBASTIEN BACHOLLET: Martin, before you leave, I would like to challenge this point of view completely. But we have not time now but I think we can have another way of thinking all that together. One of my main point is what I say was about during the public comment period, public forum on Monday, it's when we will start to think about decreasing the complexity of this organization. If we don't do that, we will go in a wall, and it's why I want to challenge this. I don't know where I can do that but I will be happy to have this discussion with you and other who are interested in that. Thank you.

MARTIN: I think Xavier and also the Board is very open towards other [ways of] communication in addition to what we do to serve us better because it's really about getting the best possible information to our processes. So, thank you, Sébastien.

XAVIER CALVEZ: Thank you, Martin. And just to point back to what Sébastien just said, I don't want you to think that the approach that we're

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suggesting is just about looking at emerging trends. I think it's very clear that the core of our activities today is also what we need to look at. How do we do more or better with the same amount of resources? This is what Sébastien is talking about. If we manage to simplify the way we are organized today or the way we operate today, so that we can do more with the same amount of resources, we've won.

So, Sébastien has pointed out to simplification of processes, doing things more effectively, more efficiently. There's no reason why there would not be opportunities there. But it may take, as Sébastien was saying, to define how we reach that point but I can tell you that after having discussed in a small group of the SO and AC Chairs, they were very much onboard with the idea of trying to prioritize and they completely and immediately matched together the idea of if we defined strategic objectives for the organization and prioritized them, it will allow us SO and AC organizations to be able to also prioritize our work so that it matches better what the broader organization is doing. And maybe if the GNSO and the ccNSO look at similar priorities, then it will be also easier to match together the work streams or the PDP processes and instead of every organization doing everything that they think they have to, that may not be matching with other organizations, so then if you have 10 different topics handled by the GNSO and 10 different topics

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handled by the ccNSO and they're not coordinating together, you have 20 different work streams.

But if the two organizations, for example, coordinate among themselves, then maybe we'll be able to have much more reduced volume of work. And we have one last comment and then we'll need to wrap up.

[ALEXANDER]:

Thank you, Xavier. I'm [Alexander] [inaudible]. I would develop the ideas provided by Sébastien and you just mentioned about like spending more wisely, so if I can go in to set up some transparent electronic procurement system, which operates globally, and which make possible to submit proposal on the procurements of ICANN from different parts of the world because in Ukraine, we just implemented the electronic online platform, which was like is ranked like one of the best in the world [inaudible] like open data [inaudible] and it's as awesome seeing, though, some articles in state spending where it decreased about one-third just the cost of electronically publicly available and more transparent. So, it could boost efficiency of ICANN spending. So, what do you think about this and what perspectives in implementing this?

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XAVIER CALVEZ: That's one of the many areas of potential improvements that we have. We have currently procurement structuring system that is also electronic. Of course, you can submit bids online and we have the system in place and that's what we are having now using for about a year and a half. But we're still learning through using that system. It also provides much more information, granular information on our spending by vendor, by nature of cost, and so on, so we have now a much better database to be able to do more efficient procurement, to your point, and any organization that has implemented that type of capabilities has seen returns very quickly. So we have done half of the work. We have the system in place. Now we need to use it better and I'm expecting benefits from that.

[ALEXANDER]: A short comment. Is it possible for everyone to search about the procurement auctions, to track it to analyze or it's just for persons, which an organization, which are inside the system? Because our system is publicly available for each citizen in the world.

XAVIER CALVEZ: There's more than just procurement efficiency and what you just said. There's also data privacy and there's also [inaudible] open data related activities, which we are also working on. So, it's

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currently only open to the public for bidding purposes. So, if you want to bid on an RFP, that's what we are currently using it for.

SÉBASTIEN BACHOLLET: Just to answer. It's part of the Work Stream 2 of the Cross-Community Working Group on Accountability. This part, transparency, we are, the group is taking care of that and you will be able to comment on that in the next two weeks, I guess. Thank you.

JESSICA CASTILLO: Okay. Thank you, everyone, for attending. We do need to end this session so that the next group can get set up. Again, if you have any questions, please e-mail us at [planning@icann.org](mailto:planning@icann.org). Thank you again.

XAVIER CALVEZ: Thank you very much for your participation. Have a good rest of the meeting.

**[END OF TRANSCRIPTION]**