SAN JUAN – ICANN Organization: Budget Working Group Meeting
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ICANN61 | San Juan, Puerto Rico

BECKY NASH: Hi, everyone. Thank you for joining. We're going to get started in just a moment. Thank you for your patience while we get set up.

Good afternoon, everyone. This is Becky Nash from ICANN.org Finance. We're going to go ahead and get started. We do have a pretty full agenda that we'll be going over but we have slotted in for some breaks, so let me just get started with a couple of items as it relates to how the files can be accessed today.

So again, my name is Becky Nash from the ICANN.org Finance Department. Thank you all for joining today. This session is being livestreamed with audio only and we wanted to let participants know that they can send in questions via e-mail, and the e-mail address is icann61-202@icann.org Those e-mails will be routed to our colleague, Jeanette, who is here in the room with us and she will then be able to read those questions that have been submitted out loud for audio purposes here in the room.

In general, we'd like this session to be interactive so we will go through a presentation and take questions as we go along and we will also have time allotted at the end for Q&A. In addition,

when we get to the agenda slide, we do have a break slotted in, in the middle of the presentation. But again, interactive and we do request that people ask questions should they arise.

So first of all, my name is Becky Nash and we are going to be joined by the ICANN CFO, Xavier Calvez, as well. He had a separate meeting that he's just coming over here from. And then I'd also just like to point out that we do have Ron da Silva, our ICANN Board Finance Chair, here with us as well.

I'd like to just go over the agenda. We're going to talk a little bit first about the introduction to the Budget Working Group and the objectives. The first section, then, is going to be a recap of our year-to-date FY18 financial results, meaning that we're going to cover six months of FY18 from July 1st through December 31st, 2017.

Then we have slides as it relates to our Fiscal Year '19 planning expenses. We'll be covering the planning process and expenses. The next section after that will be covering the reserve fund allocation and replenishment. I then highlighted that there's a break at that point, so I will try to maintain a good timekeeping system to have that break.

When we come back from break, there will be a section then on our funding or revenue for ICANN where we will be talking about the FY18 forecast and the FY19 planning and budgeted funding.

After that, we have a section covering our planning for FY20 process along with a slide on strategic planning and then we have our slide on community engagement where we would like to discuss on an interactive basis, how to improve engagement on finance matters within the community and then we have a next section for Q&A and discussion and we do have items in the appendix as well that we can refer to.

But again, although we have Q&A listed at the end of the session, we do encourage Q&A throughout each section where we will be pausing for discussion.

For this next slide, we have a purpose, approach, and desired outcome of the Budget Working Group process. So the purpose is community feedback and input on the draft FY19 Operating Plan and Budget and the Five-Year Operating Plan update. Our primary purpose is to increase community involvement in the planning process.

So the approach to these Budget Working Group sessions that we're holding today is an interactive discussion with constructive input, comments, criticisms, proposals and ongoing engagement. It's an open format with Q&A throughout the entire session and the timing is such that the ICANN61, as many of you know, the public comment period ended on the 8th of March and we have had two sessions already to discuss public

comments submitted, so this is a great time in the planning process to also have this Budget Working Group.

The desired outcomes, feedback on the draft FY19 Operating Plan and Budget, particularly, public comments, expenses, funding, and then a deepened mutual understanding and engagement between community, ICANN.org, and guidance on increasing engagement.

This first section is the FY18 financial overview. I'm starting this section with just a reminder of how ICANN Organization reports financial statements, so this is our reporting structure for FY18 and it's how results are presented in our quarterly stakeholder calls and other types of financials that we present or post or publish on our website.

Bear with me a moment. I've lost the video. Great.

Just as a recap, we organize our financial reporting structure with ICANN operations listed in the blue boxes and ICANN operations represents the funding from the contracted parties and the expenses for ongoing ICANN operations. As you can see, we've listed the red boxes which is where the PTI/IANA services are also included within our ICANN operations. The right box that's blue lists out for FY18 only the IANA Stewardship Transition project expenses and the importance of identifying that particular box is that it sits over the reserve fund and the

IANA Stewardship Transition expenses are funded by board approval from the Reserve Fund. The operations over to the left are funded, or the funds go through the Operating Fund for daily expenses.

On the right-hand side of this slide, in orange, we present the New gTLD Program with the related funding and expenses for the separate program of new gTLD and at the bottom, you can see in the gray boxes that we have funds under management that are separate for new gTLD funds which represented the application fees that were collected up front and have been used to fund the program. And then we also have the auction proceeds which are a separate box where there are no funding or expenses above the auction proceeds. All of this then is what we call Total ICANN for financial reporting purposes.

We're now going to review the FY18 year-to-date July 17 or July 2017 through December 31, 2017 overview. Again, this is for our ICANN operations and this slide then has our funding and expenses.

Sorry, we keep losing this. Now it's really small. I guess I'll just move over. Okay, sorry about that.

So as we can see for the first six months year-to-date FY18, we have actual funding of $65 million as compared to the adopted budget for FY18 of $71 million. For the first six months, we have a

lower funding by $5 million. This is also compared to FY17 actuals in the gray boxes on the right where you can see that actuals for the first six months in FY18 were quite on par or at the same levels of FY17 funding, also of $65 million.

The next line is our expenses where you can see for actuals FY18, we have for the first six months, $59 million in expenses as compared to the adopted budget of $68 million. So expenses for ICANN operations for the first six months of FY18 was $9 million lower than the adopted budget. We are then presenting the IANA Stewardship Transition expenses where actual spend for the first six months was approximately $1 million as compared to the budgeted spend of $2 million so that the IANA Stewardship Transition expenses are also lower than the adopted budget.

From the actuals then, funding less expenses, less IANA Stewardship Transition, we can see that we have a net excess of $6 million and that's compared to a budgeted excess expected on phasing after the first six months of $1 million so that we have a positive variance of $4 million. And this is all compared to FY17 as well in the gray boxes where you can see that we're also ahead of FY17 as it pertains to our net excess.

I'd just like to highlight at the bottom of the slide, the breakdown of expenses that we're showing is how the PTI IANA services breaks out of the ICANN operation expenses because

they are reported above in ICANN operations and this just gives you a brief overview that PTI/IANA had actual expenses or the first six months of $4 million as compared to the budget for the first six months of $5 million, so they also had lower spending as it compares to the adopted FY18 budget.

On this slide, we're presenting the FY18 year-to-date funding versus the budgeted funding and last year. So for the first six months of FY18, this breaks out our funding which is below target due primarily to the lower registration volumes. So the first left-hand set of columns is the registry transaction fees, so those would be the domain name transaction variable fees where, for registries, we had revenue or funding of $24 million as compared to the adopted budget of $28 million and again on par with last year, which was also at $24 million for the first six months.

The next set of sources for funding is the registrar transaction fees, so again, the variable transaction fees for registrars for the first six months was $16 million, which is $2 million below the budget for FY18 of $18 million and approximately $1 million ahead of last year, the blue column, for FY17 for the same period as last year.

The next source of funding is the registry fixed fees and the registrar fixed fees where we can see that the registry fixed fees

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of $15 million were right on budget at $15 million and the registrar fixed fees were $8 million, also on par with budget of $8 million.

To the right, we have the other funding and that is comprised primarily of the voluntary contributions by the ccTLDs and that also rounds on par $2 million as compared to the adopted budget.

For FY18 year-to-date, again the first six months, this slide provides a breakout of the operating and capital expenses. Primarily, we have actual expenses of $59 million as compared to the budget of $68 million and we are showing that expenses are lower primarily due to professional services and the timing of different projects versus plan.

The first cost category that we present is the personnel expense. Personnel expense of $34 million was at budget of $34 million and ahead of last year which was $27 million. Travel and meeting expenses is slightly below the adopted budget at $7 million for the first six months ending December 31, 2017 and that's compared to the budget of $8 million, and again, slightly behind in growth of expenses as compared to last year this same time of $8 million.

The next category is the professional services, and here, you can see that we were well under the adopted budget of $8 million as

compared to the adopted budget of $14 million for the first six months and also professional services were lower than last year as well, the $9 million.

I'll just pause for a moment. I think Marilyn has a question.

MARILYN CADE: Thank you. I just want to thank you again for the opportunity for the Budget Working Group to meet. I know it's a big commitment of time but something that's really, really important and increasingly so for all of us.

It's just a clarifying question and it is true, I did read every page, but I can't always remember where I read something. On professional services, without going into any deep depth, can you just, like, rattle off a few of the categories that go into professional services and I have one specific question which I'll just ask. In professional services, normally, what I'm accustomed to see would be outside legal fees, perhaps retention of consultants who have expertise that we do not have in the staff but I have noticed that there is use of outside consultants to do scheduling for reviews or to augment the policy staff, etc. So I'm interested in what are the categories that would fall into that because those expenses might actually be over in a different budget.

And then specifically, the audio bridge services that ICANN contracts for which are so vital for our remote participation and I guess, as we've seen at this meeting, they're particularly vital to have. They are enhanced expenses because they come with a lot of additional services around them, so it's not just pure communications cost. It's much more than that. But they are, of course, growing in expense because of the fact we're growing the community. That would not be in professional services, I'm assuming. I'm assuming that would be in admin. So we don't need to go into great detail. I'm just trying to get a sense, when I start thinking about where the cuts are reflected.

BECKY NASH: Thank you, Marilyn. With respect to your question regarding what comprises professional services, yes, that cost category includes many of the costs that you had indicated and that is standard from a financial reporting standpoint. So it would be any kind of outside vendor that is a professional services firm, such as a consultant firm or maybe a special study or some sort of other professional services. That would include legal fees as well and from a finance standpoint, that would include our audit fees, our tax providers such as that. And then as it pertains to your question regarding where the cost of telecom logistics software, absolutely. That is actually included in our

administration and other cost categories. So hopefully, that answers your question. And language services as well.

Yes.

JOHN MACLEAN: Hi. So it's actually going back to the slide before on the shortfall in projected revenue due to lower registration volumes. Do you have any sort of theory or have you guys looked into why that projection ended up being off? Have you broken it down? For instance, was it a shortfall in new gTLD registrations? Any kind of guidance there would be nice.

BECKY NASH: Thank you for your comment. I hope you're going to be able to stay for the afternoon because we actually do have, as I indicated on the agenda, we have a section on funding where we are going to be talking about the FY18 forecast, which would then also provide information as compared to our forecast for the year as compared to the budget. Does your schedule permit you to stay for that session? If not, we can potentially provide you the audio or also talk a little bit maybe at the end of when you think you're going to be leaving. Thank you.

So if there aren't any other questions as it pertains to our FY18 year-to-date operating and capital expenses, let me just move

ahead. This next slide is also a slide that we provide in our quarterly financial reporting which is the funds under management as of the 31st of December, 2017. So funds under management for total ICANN was $462 million and that was comprised of funds for the ICANN operations of $104 million and then the New gTLD Program related, which would be new gTLD application fees and auction proceeds of $358 million.

So the breakout by funds are listed on this slide, where on the left-hand side, we have the ICANN operations of $104 million comprised of the Operating Fund of $34 million and the Reserve Fund of $70 million at the end of six months 2017. The comparative figure that's provided here is the quarter prior which is 30th of September, 2017.

On the right-hand side, we're showing the New gTLD Program with $358 million plus auction proceeds and that's comprised of the new gTLD funds, $121 million, and the auction proceeds funds of $236 million.

Marilyn?

MARILYN CADE: Thanks, Becky. I should have looked this up myself, but I'm under the impression that this does not include any auction proceeds that might still come in, such as from .web.

BECKY NASH: Could you clarify your question about "still come in"? What do you mean by that?

MARILYN CADE: Well, .web was a contested decision. Why don't I take that offline and I will look up the… because I know a little bit about it, but I guess my question is more general. Should we be assuming this is roughly the totality of the auction proceeds?

BECKY NASH: Thank you for your question. Yes. We do have listed on our website all of the auctions and this does include all of the ones that have taken place.

Before I move on to the next section, which is the FY19 planning process, I just wondered if there were any more questions just about the financials for year-to-date FY18 at all?

Yes?

MAXIM ALZOBA: If you go to the Slide 10, the difference is around $3 million between these periods. Where did it go or what happened to it?

BECKY NASH:	Thank you for your question. Primarily, the funds under management on the left-hand side for ICANN operations, that is related to the Operating Fund which is used for ongoing daily expenses. So the Operating Fund is where all of the cash receipts for invoices paid by contracted parties come in and then the daily expenditures for outgoing flows. The Reserve Fund for ICANN operations, as you can see at the end of the year, it actually did increase and that was based on a board-approved resolution to transfer funds into the Reserve Fund that took place in early December 2017.

So then if we're looking at the New gTLD Program, again, the new gTLD funds at the end of December reduced and that's in order to fund the ongoing expenses for operations as it relates to the New gTLD Program. And then I think there's a modest change in the auction proceeds as it relates to fees or a market valuation there. So I hope that answers your question.

Okay, so this next section is related to the FY19 planning process. This is our overview of our FY19 planning timeline and highlights. Many of you have seen this slide since the beginning of the FY19 planning process. We like to use this slide because it's a very comprehensive timeline of the overall planning process and we really have highlighted that during FY18, this current fiscal year, when we've been planning for FY19, we really looked at the timeline and decided to ensure that we were able

to prepare the budget and propose it for adoption well in advance of the beginning of the next fiscal year.

So the timeline at the bottom right-hand side does indicate that the target is to ensure that the proposed budget for adoption is presented to the ICANN Board by at least 45 days before the beginning of the next fiscal year, which would start again on July 1st, 2018. And this is in order to ensure that there is time available for the Empowered Community period before the beginning of the next fiscal year.

The Empowered Community period timeline is approximately 28 days and we wanted to make sure that we had that period accounted for.

So the key items that we're highlighting here are the key next steps is that the public comment period ended right before ICANN61 and that's where we have been discussing here at ICANN61, public comments that have been submitted on the draft Operating Plan and Budget.

The ICANN Org Report on Public Comments is due to be published on the 12th of April and then the next key milestone will be to work towards the recommendation by the Board Finance Committee to the ICANN Board for approval of adoption of the FY19 Operating Plan and Budget on or before the 31st of May, 2018.

On the planning timeline, at the upper left-hand side, we just have all of the steps that were related to the PTI and IANA budget process. That process started way back in August of 2017 and the PTI Board did adopt the PTI budget in January and also then the ICANN Board did adopt the IANA budget in February timeframe. And again, we also had accounted for the Empowered Community period for the IANA budget as well.

This is the same process for timeline and highlights that we will be using for FY20. We do, however, realize that we must start a lot earlier for FY20 just to ensure that we keep having the budget approval process earlier each year, which is a typical best practice so that we allow plenty of time before the beginning of the next fiscal year.

On this slide, we have an overview of the Strategic and Operating Plan process. So the Strategic Plan where we have five objectives and 16 goals, the core foundation strategies upon which the goals are based are the five objectives and then we have 16 goals which are the desired deliberables to meet the organization-wide objectives.

From an Annual Operating Plan and Budget standpoint, we then have 41 portfolios for FY19 and that's the cross-functional work undertaken in support of goals to fulfill core deliverables and

services and we have slides later in this section just regarding the FY19 budget by portfolio.

And then for FY19 Operating Plan and Budget, we have 222 projects. And a project is a temporary endeavor with a defined beginning and end, and a specific set of deliverables. So this is the framework and the process in which we plan for our Annual or Fiscal Operating Plan and Budget.

I would just like to highlight that during FY19, we did go through and review the portfolios and the projects in an effort to reduce the number of projects. And there was a reduction both in portfolios and in projects in helping us to better identify how we budget by project.

I'm now going to cover the FY19 Five-Year Operating Plan update. So the Strategic Plan has objectives and goals and they are defined in the Strategic Plan and they remain unchanged for FY19.

We then plan by portfolio and the portfolios are updated to reflect work that will be completed by the end of FY18 and then also to start new portfolios in FY19. And we also work on the refinements that will continue throughout the year and this includes moving portfolios between goals and following organizational or project changes.

We do have accountability indicators. They are what we call our KPI dashboard formerly was the KPI dashboard, now the accountability indicators. We are now focusing on measuring our accountability to the community and we have many measurements that have been redesigned.

The Five-Year Operating Plan update for FY19 also has dependencies that have been updated to reflect completed work and events that have happened and then also new projects or events that have arisen.

We also changed the phasing where we've updated the phasing based on planned progress to be completed by FY18 and to give additional detail for FY19 and beyond.

For FY19, this is year four of the updates to the Five-Year Operating Plan, and on this slide, we're just highlighting a few of the changes where we had differences in timing or deliverables, most notably that the Work Stream 2 implementation is funded by operations or ICANN operations budgets and then that the reviews associated with the affirmation of commitments that have now been incorporated into the bylaws are called specific reviews.

Xavier? Just o clarify, the WS2 implementation is funded by operations in FY19 only, meaning and beyond, but FY18, when we did review the financials for FY18, you could see that we have

a separate segment called the IANA Stewardship Transition Project expenses. For FY18, they are funded outside of operations by board approval from the Reserve Fund. So that was just a clarification there. This pertains to the FY19 update to the Five-Year Operating Plan.

This next slide, we have an overview of the FY19 Planning document structure. So for FY19, the documents for the Operating Plan and Budget for FY19 and the FY19 Five-Year Operating Plan update were separated into six different documents. Two of these documents were brand-new or had new elements to them.

So similar to last year, Document #1 is intended to be an overview of the key elements of the draft FY19 plans and it has highlights or what some may call an executive summary. That is one document that throughout our FY19 Operating Plan and Budget documents, we suggested that readers read that one first and definitely do read it. It also has an introduction to the budget where we do have letters from our Chair of the Board, our CEO and President and our CFO describing elements or key elements of the budget and then we have several selected tables that permit readers in the community to review the highlights.

Document #2 is our FY19 Budget document. So previously, the Budget and Operating Plan were combined into one document

together. For FY19, we decided to publish Document #2, the budget, separately. And again, the purpose of the document structure for FY19 was to permit better access for the community to elements of the planning process that they were most interested in. So Document #2 is similar to last year. It's just on a standalone basis for FY19 in separate document.

Document #3 was new for FY19. This is the FY19 key projects and activities. This was information that we provided on key cross-functional projects and activities planned for FY19 in order to give a narrative and to quantify these key projects that are cross-functional.

Document #4 is the FY19 Operating Plan and it does contain a new section which we called Section #1, which is a summary of six modules of work planned for FY19. On the next slide, I actually have those six modules listed out and we can touch upon that briefly.

Before moving to the next slide, Document #5 is the FY19 Five-Year Operating Plan update, similar structure to last year. And then also, we have Document #6 which is two documents including an Excel spreadsheet. We have it in PDF or in Excel where we have a detailed breakdown of the budget by each portfolio and each project.

We've been presenting on this document structure in hopes of getting comments and feedback from community members on whether or not this new set of six documents does provide better visibility and if it's easier to read or not.

Yes, Xavier?

XAVIER CALVEZ: Thank you, Becky. Just to emphasize on that, we would very much welcome whether there is some comments that have been submitted for public comments on the structure of the information that we provide and that's very welcome, but we would definitely also welcome further feedback on the structure of these documents. We have tried to offer information for various types of needs. Some of the committee team members would like a simply very quick look, high-level, if I have ten minutes to spend, what do I do? And that's what Document #1 is trying to do. Other community members say, "Well, I want to look at all the details," and that's what Document #6 is trying to do. Anything in-between is giving information that is a little bit more specific to certain areas of the organization, for example, the addition of the six modules here is aiming at giving a better understanding of specific sets of activities like engagement, for example, or reviews.

And it is important to us to understand how useful and effective that structure of document is to help you understand and be informed and participate as you desire. And your continuous feedback on that topic is very important to us because it's no use that we produce a lot of information if it's not helpful.

So don't be shy of comments, positive or negative. It will help us continuously improve the documentation that we produce. We do recognize that quantity is one thing, quality is another. Quantity only matters if quality is there. And therefore, we are not necessarily aiming at continuously providing more information. We want to make sure that it is useful to the community members. I see one hand up, two hands up. Maxim and then Jimson.

MAXIM ALZOBA: I have a question about the spreadsheet document. What were the reasons, in particular, for description of work of CTO office to have different lines for the special projects, special research projects, and things like that? Basically, there are four lines which seems to be almost similar and what was the reason to just break it down?

XAVIER CALVEZ: Thank you, Maxim. May I suggest that we hold on to answering your question because we have down further in the document, we are going to go over that list of portfolios and projects and we will then stop on the area that you are pointing out relative to the office of the CTO activities and then we can answer directly your question there if that's okay with you.

MAXIM ALZOBA: I will have to leave for PDP, but I hope you will just tell about it to the [inaudible].

XAVIER CALVEZ: Thank you. So before you leave, signal us and we'll make sure we come back to your question. Thank you. Jimson?

JIMSON OLUFUYE: Thank you very much, Xavier, Becky, and the entire team. You really work very hard and the report's been very, very comprehensive.

The observation I will make is that normally, for a busy executive, we want to look at the executive summary, make highlight. But as newcomers that will come in and say, "Okay, budget document, oh so many, document this, one, two, three, four, five, six, oh." So my suggestion is that let's have just one

document. You have the executive summary [inaudible], possibly call it executive summary. Okay? I don't think there is anything wrong in that.

So if we have that, then we can then have all that, Section A, Section B, of course with the proper indexing. So with that, someone commented, "Oh, there is one document, okay." But just a report, a budget proposal, we will grab it and then look at this first and then move into the other [inaudible]. But for a new person, from experience, you see so many things, you will be [inaudible]. Veterans are okay. They will break it out, they will chew it, and things like that. That's just my thought.

XAVIER CALVEZ: Very good point. Thank you very much for that feedback. That is very useful.

BECKY NASH: This next slide, I had moved forward to it just while Xavier was talking because it does list the six modules of work that were outlined in Section 1 of Document 4, and again, this was something new for this year to have these modules in order to permit community members to be able to look more deeply into the areas of the Operating Plan and Budget that were of most interest to them.

I will highlight that Section #2 is the complete Operating Plan by objectives, goals, and portfolios, similar to the Operating Plan documents that we have published in the past.

So for this next section here, I'm going to pass it to Xavier with just an introduction overall about the FY19 Operating Plan and Budget.

XAVIER CALVEZ: Thank you, Becky. So to remind those of you who have already gone through the documents and to summarize at a high level what the FY19 Operating Plan and Budget is offering, there is a number of comments that are useful to understand before getting into the depth of that document. As we have all been discussing a fair bit, the growth of our funding is slowing. I don't want to elaborate too much further on the topic, but it's different than to say that our funding is decreasing. We'll come back to that.

We have tried to reflect in this budget an approach of containing costs and generally speaking, our expenses are expected to be more or less stable versus the current fiscal year, so stable in FY19 versus FY18, in the reflection of our funding that is also stabilizing. So that means being more selective in planning for activities and allowing those new activities that need to happen

be there, which sometimes is at the expense of other activities that have been carried out in the past and are not anymore.

So that's what cost containment leads us to do and, of course, there have been a number of conversations during this meeting on this topic and there's a certain amount of information in the budget that illustrates that approach.

There is also the new documents that we have offered. We just went over that, the six modules and the view of the projects that's trying, as we said, to increase the amount of useful information for the committee to better understand certain activities. In addition, there is also an approach that we have retained in which we spoke about in a session earlier this morning on the public comment to budget for activities and projects that have been the subject of approval, that are clear in their path of process, and that are, therefore, being worked on during FY19. What that means is that we have not necessarily included in the budget what I would call speculative work or, put differently, work that is yet unclear as to when it's going to happen, how it will happen, and therefore, how much resources it will happen.

In the past recent and far, ICANN had used a little bit of the budget to reflect a list of processes and projects going on, and sometimes, including the budget, activities that we know will

happen at some point in a certain fashion but that we didn't have a lot of information to be able to reflect clearly. That has also led us to realize after the fact, after producing the budget, that these activities maybe were happening a lot slower than we are budgeted for as an illustration.

And it's not necessarily a huge issue, but the challenge with that is that if we include activities that we are not able to quantify correctly or that are slated into the budget, though they are likely going to happen later simply because of the time it takes to get them to fruition, it takes resources away from other activities that may better deserve them in the shorter term.

So in this approach, we have tried to be a little bit more realistic about what can happen during FY19. Rather than be reflecting a desire that activities or policy process developments or reviews happen effectively in the timing that is more desired than realistic. I'll be very blunt. I always expect that reviews will happen slower than they are scheduled for and I'm hoping it's not a driver for them to be slower. It's more the result of the experience of seeing it happening slower.

Now what I indicated this morning on the basis of a comment that was offered which was very useful, I want to emphasize on that basis that what we put in the budget is reflecting of our estimation at a point of time of what can happen or will happen.

It shouldn't be viewed as if it's in the budget, it's going to happen and if it's not in the budget, it will not happen. Things change all the time. Many of you who know about budgeting know that a budget is obsolete the day after it's done simply because by the time you finalize your budget, things have already changed. And life changes every day. Projects go faster, slower, new things occur. So our budget is helping us to plan what we are going to do over a future period. But things change all the time.

So what we have tried to make sure we do in this budget is reflect our expectation of how things would happen in the future based on the information that we have today. It doesn't mean if it's not in the budget, we're simply not going to work on it. That's not true. If an activity accelerates or becomes more mature or a decision is made to proceed with a specific PDP process, for example, and resources would not be allocated to that specific process though it's been decided upon. Then we can change what we do. We can look at a reallocation of resources so that we support that new activity that was not budgeted for.

This is standard management of resources in any company. You adapt yourself to the environment. You use your plan and you allow yourself to change your plan when you should. But you

should have a process of reevaluation of that. Is your hand up with Maxim?

MAXIM ALZOBA: Short clarification question. If, for example, some review was put on hold like SR2, does it move the whole spending to the next cycle when it continues or is something like standby costs happen? For example, you have five hypothetical reviews. They've been put on ice for six months. Does it cost some like 10% of the estimates to be lost on standby costs or something around? Thanks.

XAVIER CALVEZ: Thank you. It's a good question and you're taking an example that illustrates exactly what I was saying earlier is that things don't necessarily happen the way we plan. So when there is a project, it could be a review, It could be anything else that's put on hold, the history tells us that there's been enough activities going on at any point of time that if an activity needs to stop or slow down, there are other projects that can benefit from using those resources.

So I look at SSR2 Review, for example, which is the example that we are taking. There's a number of team members in the MSSI Department that support that review to happen. It's not a huge

amount of people. It's the fraction of time of two or three people and there's many other reviews actually going on at the same time, so it's very easy for us to reallocate those resources to support the ongoing reviews while the SSR2 Review was passed, for example.

By the way, it's not because the review was passed that there was nothing going on about it. So there was still a lot of support to be provided during that timeframe. But that's exactly the type of things that allows us to reallocate our resources so they are not idle, of course, while a project is being stopped. It does, the example does raise the issue that if something is sufficiently delayed that it will then happen maybe in the subsequent fiscal year, that may create a problem. But that's also the type of normal event.

So let's assume something. We have budgeted for a review to happen and be completed during FY18, but it is stopped or it's happening slower. It will, actually run a lot in FY19 but we had not budgeted for it then because we had assumed that it would fall into FY18. That's a very logical, typical, normal event that can occur and this is one that would then trigger us to say that we have something that is ongoing, something that needs to happen. It's important that it gets completed, and of course, we're not going to suddenly stop the review on July 1st because there may not have been resources adjusted in that budget.

We have sufficient flexibility in the budget to be able to say, "This is important work that is happening. There may be other work that was planned for that can be slightly delayed, for example, so that we can continue working on this ongoing review and only start the next one later so that we allow the resources to be reallocated," and it's not necessarily impairing the principle of proceeding with this next review, but it's simply pragmatic resource management that allows us to complete a project later than it was planned for, but without impairing its completion. So that's ongoing management of various projects.

Nathalie, who is part of the team that supports reviews, has a comment. Please, Nathalie.

NATHALIE VERGNOLLE: Thank you and good afternoon. I am part of the MSSI Team, so I was just going to take the opportunity to follow-up a little bit on what Xavier was saying.

In occasions like this where there are changes in projects and the halt of SSR2 is one example, but those are examples that happen all the time. So there's a number of costs that are put on hold, typically, travel expenses, professional services, I mean, all those types of activities, of course, are suspended and result in costs being put on hold. There's yet another area where we have ways to [have room for] flexibility.

We usually have as part of our staff, our regular employees use external contractors as needed based on how we need to staff our projects and so, for example, when a project is put on hold, maybe we were going to hire an external contractor to help us with project management on one review and we no longer need to do that because we have sufficient resources internally to do that. So we have also that flexibility by the fact that we are hiring, some of our work is done by contractors. It allows us some level of flexibility. Thank you.

XAVIER CALVEZ: Thank you, Nathalie.

ALFREDO CALDERON: I just need some clarification. What do you mean when you say that a project is on hold when it has funds allocated? What I used to do is when I have a project, if I don't use the allocated amount during the fiscal year, I just carry it over for the next fiscal year instead of reallocating the funds within that fiscal year and then I have to do another allocation for the next fiscal year. Is that the idea of the Five-Year Strategic Planning approach? Thank you.

XAVIER CALVEZ:
Thank you for your question. So the way we currently plan and budget is to, on an annual basis, planning budget from "scratch," meaning it's not exactly a zero-based budgeting approach but it's basically looking back at everything that we do and allocating resources to what we do.

So what that leads us to do is what we plan for the subsequent year, let's assume January 1st, we try to develop the plan for the upcoming fiscal year that will start in July 1st. We look at what is currently going on, what we think will happen then next during that fiscal year. And we make assumptions, for example, on a given project's progress by the beginning of the fiscal year that we plan for and also its progress during the fiscal year that we plan for.

So if we sit on January 1st, what do we think is going to happen on this project by the end of June 30th and that will be our starting point for the next fiscal year?

Then what we do is simply try to evaluate how much resources will continue to be used on this project by the end of the fiscal year and how much resources will be planned for in the next fiscal year.

The changes that happen in that planning then leads those assumptions to be changed. What we do not do is allocate, segregate, and freeze resources on a given project and topic.

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What we do is that we plan for activities, use the resources that we have for the activities that are going on, and if the plan changes by a project being held, for example, then we reallocate the resources for the activities that are going on.

That has both pros and cons. The challenge with that approach is that, the example that I was taking earlier, is that something that was supposed to be finished within a fiscal year but may have carried over into the next fiscal, it may not have actual resources available in that next fiscal year because it was just not planned for. But that is also why we need to be flexible in our budget allocation to be able to say, "Things change. Assumptions change. We're going to reallocate resources."

We're talking a little bit theoretically as well. Sometimes it's simply instead of spending ten hours on a project, we're going to spend it on something else. It's not requiring a huge amount of decision-making at all times. But that's the approach that we retain today.

Other organizations retain sometimes different approaches to budget, which is once a project is initiated, the resources to carry out that project are isolated, segregated and kept as long as the project is ongoing and are not reallocated if the project is being stopped. It's often called Fund Management and it's a different mode of operation, certainly.

We have seen in the past and I don't want to take just the case of reviews, but notably, in the case of reviews, where we have evaluated the benefit of doing a little bit of that approach where if a review is started, we then allocate and segregate and keep the resources required to complete that review until that review is complete even if it carries out in the subsequent year. This would be a change in the way we manage the budget and the resources and, of course, it removes a little bit of flexibility in the way the budget is managed as well. We have not yet tried to do something like that, though we have been discussing a little bit with the BOC whether we would do something like that for very specific, limited amount of activities. Thank you.

Last high-level comment on the budget and nothing we've seen a lot of illustrations of that during this meeting. There's a lot of community interest in prioritizing and ensuring, as a result, that the expenses of the organization are contained. I'm very encouraged by seeing the amount of participation and good ideas that are coming out of smoothing out reviews, looking at our meeting strategy, of wanting to be able to change decisions of the past to help us better manage our resources. So there's a lot of community interest in that and that's very welcome, very helpful.

And that's even more so helpful that just to achieve our FY19 budget that has a lot of activities in it, though limited resources,

it will take everyone's participation to ensure that we can be fiscally responsible, do everything that we can and should to deliver on our mission while ensuring that we don't spend more resources than we have, which is really our basic principle of management of resources.

Another comment here.

UNIDENTIFIED MALE: I'm sorry, but I'm almost a newcomer to these meetings. I do have a concern. I didn't read all the documents like Marilyn did. But the thing is that I've noticed that there's some redundancy which in the organization, more than one group is doing the same thing with funds within the budget. And I would suggest to have a way that all groups, all constituencies knows what's going on among them because there are some projects that are basically the same thing and each one is receiving funds. Thank you.

XAVIER CALVEZ: Thank you for that comment. I think it's a good point that we need to be able to reflect better in the projects. Sometimes there is a challenge in correctly displaying the fact that some project takes several different types of resources, so what may appear as overlap is sometimes also partial contribution from different

resources to a given project and in the description that we use of the projects or portfolios may not always help understanding an external reader of the roles and responsibilities of various groups that contribute to the given project. But I think it's a very helpful input for us to be conscious of when we revisit the description of the activities that we carry out, that they don't appear to be the same thing across various teams because though there is a lot of activities that require the contribution from various teams, I don't think there's really any two teams doing the exact same things. But there is certainly similar type of activities that are sometimes carried out, but for different purposes or for different audiences. Although we are looking very much, for example, into ensuring that participation at meetings is something that we coordinate among the various parts of the organization that are interested in a given meeting.

I'm taking an example. There is a certain amount of participation to an IGF meeting, for example. We are trying to organize processes so that we gather the needs to attend from the entire organization so that we rationalize the number of people that we send so that there's not ten people going whether one purpose, but we could maybe have only three people going and that help carry out the purposes that other parts of the organization have, so that we rationalize and limit

the amount of travel, for example, that we do so that we are also more efficient. Thank you.

UNIDENTIFIED MALE: I hate to do this, but this will be my last intervention. During the last meeting, which I went as a Fellow and this meeting, the ICANN Learn platform was revamped or there were some modifications done. During this weekend, I talked with Betsy who is in charge of the ICANN platform and I simply asked her if there is an instructional designer working with her in the design of the modules and the courses within the platform, and she just told me, "No, we just ask for volunteers. There's a simple template that if anyone that wants to upload information uses and that's it."

Now I'm an end user. I want to get more involved in ICANN, but if I have to see a one-and-a-half hour video and there's no interaction with me so that I can actually validate that I understood the whole thing, it's worthless for me. So that's just one point that I want to make and I actually volunteered to help her out because I mean, if I want to learn what's going on in ICANN, how I can be more useful, the organization has to help me out so I can understand the ecosystem and how I can contribute better. Thank you.

XAVIER CALVEZ: Thank you very much and I'm glad that you were able to contact Betsy because she is the right person to be able to improve these type of things. And I'm sure that your input to her was very helpful in helping us to improve.

I think we are ready to go to the next slide, back to numbers.

BETSY NASH: Thank you. This next slide is a summary of the draft FY19 Budget as provided in the publication. So on the right-hand side, we do have for ICANN operations, the draft FY19 Budget where we have funding of $138 million and we have cash expenses of $138 million, which then results in a balanced budget.

On this slide, we are comparing the draft FY19 Budget to both the FY17 actuals, the FY18 adopted budget, and then the FY18 forecast. So as you can see for FY17 actuals, we had funding of $135 million and cash expenses of $128 million for ICANN Operations.

When you look at the FY18 Adopted Budget, you do see the estimates for funding and expenses going up to $143 million from the Adopted Budget and then you see for the FY18 forecast then, the most recently available information where funding is estimated to be at $135 million and cash expenses of $137 million. So that gives a snapshot overall of the comparison that

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we then focus in on for the draft FY19 Operating Plan and Budget for FY19 as compared to FY18 Forecast. Yes?

XAVIER CALVEZ: Quick additional information. You may see on this slide on the left, the column for FY17 which is the fiscal year that closed at the end of June last year and you can see an excess there of $6 million, $5 million of which have been allocated to the Reserve Fund following a decision by the board after the end of the fiscal year once the excess was verified so that the reserve fund can be replenished up to that amount of $5 million. So this is if you would be wondering what would happen with that excess, that's what is happening with that excess and it went into reserves. I think we have a comment from Maxim.

MAXIM ALZOBA: Xaiver, you told me that when I'm going to leave for PDP, I may ask a question. Yeah, it's about the duplication which was referred to, and CTO office because it happened to be there too.

To efforts like DAAR and the Internet Health Indicators, basically, they are tracking something bad happening in TLDs and what is the reason for two similar projects with separate funding? It's the first question, and the second is, there are four lines of text in the end of description of CTO office: special projects, research

special projects, and research, and just simply recurring activity. What was the reason to break it down without additional description? Thanks.

XAVIER CALVEZ: Thank you, Maxim, for that comment. So you're focusing on this specific area but I think the comment that you are making could be applied in others as well. So I can see your point. So in this Document #6, we are [honestly] displaying all the information that is pertaining to a project that we have that helps understanding better what it contains and I can see from the example that you are taking that it's very easy to not see much difference between all these projects. And I would argue it's more a deficiency of the labeling than a reflection of poor planning and duplication.

So I know it's not duplicated but it's because I just know that underneath, there are more specific activities. I would take this question. So first, I'm happy to ask David Conrad and his team, our CTO, to help clarify further what is behind these specific lists of projects which is, I think, the topic of your interest and so we'll make a note of that and we'll follow-up. And Maxim, if you can make sure you send us your e-mail address so that we can ensure we provide you back the information. That would be helpful.

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And second, I'm taking the comment that you're making specifically on that area to point out to the fact that we will try to review constantly the description of the projects so that it's very explicit on the basis of the title and it doesn't require interpretation.

You also mentioned about what is called the DAAR, and the ITHI which are two separate things. Christine, can I ask you to help us a little bit with the DAAR and explain what it is? And I think you also have a little bit of understanding of the Health Indicator and can illustrate the difference for Maxim and for everybody else. Thank you, Christine.

CHRISTINE WILLETT: Thank you, Xavier. So these are, as I understand, the two separate projects. The domain abuse activity reporting as I'm reading from that Document 6, it's a project for a system for studying and reporting on domain name registration and security threats, domain abuse, behavior across top-level domain registries and registrars.

As I understand it, that's a project our OCTO, our Office of the CTO has been undertaking for a while in a systematic way to collect that data and present it versus the ITHI, Internet Health Indicators. It's about developing draft metrics to establish a baseline for Internet health.

The latter is about what does a healthy Domain Name System look like, what are those positive indicators. It's trying to identify a set of metrics that the community can agree upon and that over time, ICANN can collect data for those metrics and create a report about health versus domain abuse is specifically looking at bad activity. So one is about indicators of health and one is about indicators of lack of health.

Beyond that, if I could offer any other insights, Maxim, Office of the CTO, I know on a daily, weekly, monthly basis get requested to look into all sorts of current concerns and issues in the Domain Name System and I know that they are. So they have a set of special projects and the effort is to budget for these things separately. It tends to be separate resources. They could be projects managed by separate people within ICANN. So it's an effort to be as discrete as possible and to be as transparent as possible, but that said, I would agree with Xavier. Sometimes our descriptions of those projects only go so far when we're trying to capture it in one or two sentences in a spreadsheet of 300 projects.

XAVIER CALVEZ: Thank you very much, Christine. Maxim, if you don't mind, if you e-mail us at planning@icann.org, we'll get your e-mail address.

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MAXIM ALZOBA: I have already sent it to your mailbox.

XAVIER CALVEZ: Perfect. Thank you very much and we will respond. We'll also give you the references to two pages that there is on our website. One specific to the domain abuse project that we just talked about, and there is another page on our website that also describes the Identifier Technology Health Indicator, which are, as Christine indicated, two different projects. And there are two pages, one for each of these two projects on our website, which will help, I'm sure. Thank you.

And I just wanted to add to your comment earlier. Please don't feel bad about intervening. That's exactly what this session is about, and we definitely want to make sure that we are as interactive as possible. This is why we take a lot of time this afternoon to be able to interact. It is so that we can have conversations rather than one-sided presentations. So please feel free, and we're happy that you have a lot of input to provide. That's exactly what we want. Sébastien, then Ron.

SÉBASTIEN BACHOLLET: Thank you, Xavier. I was yesterday at the presentation of the health indicators, and they talked about a number of abuse domain. If I am not sure that the description – sorry, Christine –

is totally accurate with the separation of those two. I guess one is embedded in the other. And what I will say now, it's not to say that it's a way to decrease the budget for one or the other part of this budget, but I think there is a real need for coordination.

And I know that it's not a question of dollars, but even yesterday, I think the presentation we get shows that people in charge of the key rollover could have good information in those projects, and therefore, 200 projects, it's great if it's well-coordinated. And maybe it's something that we need to take into account. And I know that it's not the job of the CFO. Thank you.

XAVIER CALVEZ: Thank you, Sébastien. That's a very useful comment. I happen to know that these three projects that you're mentioning are actually supported by the same team, so I know that it's coordinated from the start and it's very – but it's also important that we show that maybe in a clearer fashion in that it's more explicit. Thank you. Ron.

RON DE SILVA: Yes, thanks. I had the same question, actually, so I thought I'd share what I did to sort of get a better understanding of that part. In that lists of projects, there are projects and there are research projects. And it may seem kind of strange. Why are

there both? If you go to ICANN.org/octo, you'll see his organization is there, and it's kind of divided between there are folks who are focused on research and then there are other folks. And this is just a way of accounting for the different activities within this organization. But if you look at it, it's mostly personnel costs on all these projects. So it's just classifying what work is being done by whom.

And some of that is probably placeholder as well. He doesn't necessarily know all the projects that are going to come, so he has to allocate what amount of the research team is going to work on projects that are yet to be determined and what part of the rest of the team is going to work on projects that are yet to be determined. So that's one way I digested it when I went through this in detail. Maybe that is helpful.

XAVIER CALVEZ: Go ahead, [inaudible]

UNIDENTIFIED MALE: [inaudible] So as I understand, it just – yes, amount of projects. Some of them hypothetical, future and not yet named, because for example you think that board might give and might require some specific investigation of something not yet known. For example, you think that they usually ask three things per year,

and usually it costs this. But is it possible to show the current projects which are known? Because instead of saying – basically, this breakdown says it's something. That's because we cannot hide the project name beyond the project word. It should be either shown or maybe combined somehow. Maybe DNS-related or the hardware investigation, or maybe software, investigation of software products or something. So it's more known without looking into the special [weekly slides] or something. Thanks. Just small question.

XAVIER CALVEZ: Thank you for the input on better presenting and more clearly presenting the description of the projects. There's another question here. Please. Thank you.

ALFREDO CALDERON: More than a question, it's a comment. I've been actually to sessions of different user constituencies where actually, they're doing research. And in some cases, I have the sense that now that he is talking about this issue that there are already volunteers within those groups doing research, and probably there's some overlapping on the type and the topic in which they're researching. So why don't we reach out to them to see if we can save some budget in that sense? Thank you.

XAVIER CALVEZ: Thank you. And at least I'll investigate whether or not there's overlap. Thank you. I think that's a very good comment as well.

BECKY NASH: This next slide, we have FY19 budget highlights, and following this slide, we actually dive a little bit more deeply into the budget by portfolio. Just some of the key points on this, as I've said earlier, the FY19 is balanced where funding equals operations expenses of $138 million. Earlier we talked about the fact that the budget does not include tentative or unapproved potential work. And finally, the draft Operating Plan and Budget does include cost reductions to offset inflation and other necessary increases.

The next bullet point of funding increases at a slower rate we're going to be discussing in the second part of this session after a break, which is not yet, but coming up. We have a discussion about the funding for FY19 as compared to FY18, and then just point number three, FY19 operating expenses. For operations, expenses are stable year-on-year where we do have increases in expenses that are then offset by cost reductions just to provide a stable year-over-year cost basis. And the final point is headcount trends where total headcount for ICANN in FY19 is growing at a slower pace as we've seen with our balanced budget with

funding increasing at a slower rate, the headcount for FY19 is only 1% higher than the expected end of the year headcount for FY18.

We now have several slides that we thought would be useful which shows the draft budget by portfolio by objective. We have all objectives listed here, and I can tell that many of you have looked at our document number six, which is the two spreadsheets.

On this first one here, Objective #1, what we wanted to highlight here is the goals that support the objective, the portfolios that support these goals, and then we have made reference here to where these items are referenced in the Operating Plan modules in Document #4.

So what we're doing on this slide here is just giving a snapshot then of the total FTE or headcount and the total dollar amounts in the budget by objective. So this is a way to look at how our budget is organized to support our portfolios, goals and the strategic objectives.

Are there any questions on Objective #1? If not, we thought by as a group going over each of these slides might be helpful because it gives a view of the prioritization, and then again the total budget allotted by objective. Thanks for your patience. Talking about an upcoming break, so please be patient with us.

Again, if you haven't had a chance to look at this Document #6, again we do encourage that community members do have a chance to look at it. So for Objective #2, again we referenced the total headcount. The last two columns are the headcount and the total amount of budget by portfolio, and in total for the objective. Yes, Xavier.

XAVIER CALVEZ: Just taking advantage of information that is on this slide to explain a little bit better what it is and how it comes about. You can see in the top part of the slide – if you can see – in the middle of the colon that's called portfolio, you may see a portfolio that's called PTI operations. And so that is one of the two portfolios that helps us capturing the resources and the work that is contained within the PTI operations for the IANA functions.

You can see then the resources that are allocated, both in terms of headcount and in terms of dollars for that specific project. And of course, you can see this as part of Document #6 because the PTI operations or the IANA functions are part of ICANN. They are in a segregated legal entity which is PTI, but they are overall part of ICANN as they are also funded by ICANN.

Another comment on that. You can see here in the fulltime equivalent column the number 20. It does not necessarily mean that there are 20 people in the IANA department that specifically

in a dedicated fashion carry out the IANA functions, but there are also other functions that support across the organization a number of the activities, and some of them may also support the IANA function and the PTI operations, and we include in this number for every project in the same fashion – the fraction of effort that is supporting these projects is included in each of the number.

So I think the number from memory for the department that is dedicated to the IANA function within the organization may be 16 people, and then there are another four fulltime equivalents worth of effort from other departments that support also these IANA functions but that are not dedicated to the IANA functions.

An illustration of that could be our legal department that helps looking at decisions within the IANA functions but that only allocates a fraction of its time for that purpose. It appears here. So just so that you understand how this is built and therefore how to read it as well. Thank you.

BECKY NASH: Thank you, Xavier. This next slide is Objective #3, and again just highlighting the portfolios and the related headcount and total related to achieving this objective and the portfolios that are then supported by the projects. And then we have this again for Objective #4 and #5. The only point that I wanted to make here is

that on this last slide, Objective #5 – and again, this is contained within Document #6 – we also have a reconciliation then back to the financial statements that are included in the Operating Plan and Budget documents and also included as appendices to this presentation, because as Xavier had indicated, the Document #6 by project and portfolio includes operations for PTI but also for the New gTLD Program, and that's how we then provided a reconciliation so that you could tie this back to the financials that are included in the budget for FY19 and Document #2.

Okay, so at this point we are at a stage where we can take a break. Again, this is considered an interactive working session, so I suggest that we take a short break for 15 minutes and that we reconvene, and then we are going to move into the rest of the topics that we have on the agenda. Thank you.

[BREAK]

BECKY NASH: Good afternoon, everyone. We're going to get started again. Thank you very much for your patience. We took a short break, and we are now going to change the agenda just slightly, reorganize it where we're going to now cover the funding. So the FY19 draft budget funding and the FY18 forecast.

XAVIER CALVEZ: Thank you, Becky. I would like to emphasize that we will go fairly quickly over the FY19 funding assumptions and how these assumptions translate into the funding projections that we have included in the FY19 budget. This is something that we ideally and normally do before the public comment is started. We had – if some of you remember – a session while in Abu Dhabi to talk about funding, and Cyrus and Mukesh who are also present here with us today helped with providing some insights on that.

But because there's also been a number of comments in the public comment process relative to funding, we thought it would be a useful reminder of what assumptions have been used, and we will also ensure that we respond to the public comments that have been submitted, of course in writing. And both Mukesh and Cyrus will help us do that, of course, but they are the resident experts at ICANN with the projections on funding. I will go through the slides and they will interrupt me as necessary to provide more and better insights.

So we have been, over the past few years, providing a view of the assumptions that we make in order to project funding levels at ICANN. In doing so, we have developed an approach where we produce what we call a best estimate, which is our "best guess."

It's also our middle case. It's what we think is going to happen. Our best knowledge of what we think could be happening.

We also try to develop a high estimate and a low estimate. This is simply to try to give a little bit of sensitivity analysis to these assumptions and try to reflect also possibilities of higher or lower assumptions and see how they would translate into different numbers so that we have a better understanding of the range of possibilities. When you project, by definition you try to have a little bit of a crystal ball, and it's by definition not an exact science. So this is helping us also offer a little bit of an understanding of what the range could be and how that range of possibilities translates into hard dollars in the funding numbers.

With that said, we break out, because they're different in their evolution structure, the legacy TLDs from the new TLDs. If you look at it from the product lifecycle perspective, the legacy TLDs are fairly stable in their domain name registration levels. They grow at a relatively inflationary rate, or at least over the past few years, that has been the case.

The new TLDs of course are completely different. They just got created in the past few months or years, and therefore their growth of domain name registrations are following a very different pattern, which is why we separate them.

For the legacy TLDS – I will make a preamble comment that actually applies to both legacy and new TLDs – we are very careful in formulating assumptions relative to both legacy and new TLDs that in these TLDs, there are companies that manage them that are listed on public stock exchange.

The reason I'm mentioning that is because these companies themselves share with their shareholders and with the public their own expectations – sometimes – of growth, for example. So we want to be really careful in producing our own projections which somehow create a reflection on the market of those specific organizations who are on publicly listed stock exchanges, that we are not creating either contradicting expectations or influencing the knowledge of potential shareholders of those companies by producing our own expectations.

I don't mean by that that we can't have a different perspective on the market, but we want to be really careful that we do not basically – very simply – impact the stock market of those companies by producing projections that could be taken by the market as indication that are different from what those companies are saying.

So the legacy TLDs, our approach for projections there is fairly straightforward. We look at the historical change of the number

of domain name registrations. We call it here transaction-based fees. The difference between a transaction and a domain name registration is that a transaction is the one annual domain name registration. You could have a domain name registration for the next ten years. In our vocabulary, that would correspond to ten transactions. So one transaction is the domain name registration for one year, and that is the basis for our fees.

So we look at the historical growth of the legacy TLD domain name registrations and transactions, and this is what we have therefore used to reflect a middle scenario of approximately 3% of growth. Our high case was 4.1%, and our low estimate is 2.7%. We will see in the numbers of dollars that it translates into the next page. And we are so far relatively consistent with these rates of growth in the recent months.

For the new TLDs –

UNIDENTIFIED MALE: [A question.]

XAVIER CALVEZ: I'm hoping Mukesh is able to answer that.

UNIDENTIFIED MALE: [inaudible]

XAVIER CALVEZ: Okay, sure. So Marilyn was simply saying to go ahead with the new gTLD topic because her question is actually on that. So new gTLDs. There are 1228 new TLDs in the root that are delegated. We assuming at the beginning of the fiscal year that we're planning for, so July 1st 2018 three months from now, and we're assuming nearly the same amount at the end of the fiscal year. This simply reflects the fact that there are more TLDs that are currently undergoing the end of their evaluation and that, we are expecting, would go into contracting and becoming registries in operation during FY19.

You may note that there are – Christine will correct me – about 55 or 60 applications from the New gTLD Program that are still undergoing evaluation, and some of them are expected as a result to be delegated into the root during FY19. Did I quote correctly that number, Christine? Please correct me if needed.

CHRISTINE WILLETT: It's a little closer to – it's in the 80s of total applications pending, and it's less than 25 strings to be delegated remaining in the program.

XAVIER CALVEZ: Thank you. Less than 25 strings. Now, of course, there may be more or less of these TLDs in the root during FY19, and we'll see how that affects the numbers when that happens. This number of TLDs in delegation is directly driving the fixed fees that we collect from these registry operators.

So it's actually very straightforward, these 1228 TLDs generate, for each of them, $25,000 of funding for ICANN. This is fairly precisely $30 million of funding. 1200 times 25,000 is 30 million. So that's a fairly predictable number of funding for ICANN to estimate next year, which is also why we are not trying to have a high or a low estimate, because we think we're fairly precise in that number.

And the reality of this year's current FY18 numbers show that it's very easy to predict. Becky was pointing out earlier too the current FY18 funding numbers, and we see that the fixed fees is exactly where we expected it to be.

Next part of the new TLDs funding numbers is the transaction-based fees. So in addition to the fixed fees, the contracted parties with ICANN – in this case the registries – have in their contract a fee paid to ICANN on the basis of the number of transactions – or based on the domain name registrations – which is for all of them 25 cents per domain name registration on an annual basis. That is what we call the transaction-based

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fees. So of course there the estimated number of transactions is the driver for that fee.

We had budgeted for during FY18 – which was determined about 15 months ago – for growth of approximately, from memory, 30% of the new top-level domain names domain name registrations. We had received indications at the time that parts of the market were looking at more 60%-65% of growth, and we felt we were taking a relatively conservative approach in budgeting only for 30% growth year-on-year.

The reality which you have seen from the information that Becky had shared earlier is that the growth of new TLDs is in the single digits over the past few quarters versus last year, and we have therefore revisited the level of growth expected from these TLDs. We do believe – and this is part where maybe, Cyrus, you will be able to help a little bit our understanding – that there's a trend of growth still happening in these new TLDs in that the volume of growth that had stagnated a little bit over the past quarters could resume during the FY19 timeframe. Do you want to provide a little bit of color behind that, please, Cyrus? Thank you.

CYRUS NAMAZI: Thank you, Xavier. Good afternoon, everyone. I'm Cyrus Namazi from ICANN's Global Domains Division, and my team and I – with

Mukesh spearheading it for us – we provide the market intelligence and the funding forecast to our finance team, Xavier, Becky and others.

So the situation with the new gTLD transactions, there's a bit of a history involved here that might be useful for you to know. So end of 2015 into 2016, there were highly speculative transactions, mainly driven in China, that led to a very serious spike in the number of new gTLD transactions. And this speculation – as we expected, frankly – did not last very long. But it took it about a year and a half to work its way out. Most of these speculative transactions actually ended up not being renewed, so they sort of got out of circulation and in the transactions that actually lead to the generation of a fee to ICANN.

So what you see here, even though from a growth perspective actually points to a relatively healthy growth number, is really based on a substantially reduced base. So for the 2018 fiscal year, we estimate the transactions for new gTLDs to be flat year-over-year with FY17 at about $22 million. And we think that what I call the speculative transactions have sort of flushed their way out of the system and that the market is going to continue to resume a relatively good pace of growth.

The 36.5% growth rate actually translates into about $6 million additional transactions for FY19, of which about 84-85% is billable for us. So one thing to keep in mind in the new gTLD world, the fee generation of a transaction kicks in after 50,000 transactions for a registry, so the first 50,000 technically are covered by that fixed fee of $25,000. So up to 50,000, there are no recorded transaction fees to ICANN from the registry. The registrars continue to pay that fee. So that's the background.

XAVIER CALVEZ: Thank you very much, Cyrus. I just wanted to interrupt to say that we're on Slide #30 in the presentation for those who are attending remotely. And I think this is a good time maybe for Marilyn to have your question or comment. Thank you.

MARILYN CADE: You mean to begin my questioning.

XAVIER CALVEZ: Oh, yes. I didn't assume anything about the future.

UNIDENTIFIED MALE: Buckle up, everybody.

MARILYN CADE:	And I'm so glad Cyrus is sitting right here so he can check my addition. So I will be very clear when I speak when I am directly responding to the written BC submission, but I then will make some observations that are founded in my long experience of going through the earlier introductions of new gTLDs.

The BC comments believe that ICANN is still overly optimistic, and so I think this would be – I'm not offering, but I will take back if you're interested the opportunity for those of us in the BC who hold that view to talk about our perspectives on this in more detail.

We also believe that ICANN staff was much too accepting of the overly optimistic forecasting and did not take into account the extremely poor, underdeveloped business strategies of introducing TLDs at the cost of a penny.

We also question whether there are domain names being sold at under the 25 cents, which would mean that also to businesspeople looks like a highly questionable business practice in terms of there being revenue to pay the fees that they owe to ICANN.

So we just had some general questions that when we look at it – and we watch it very carefully, we have from the very beginning – we also – as you probably know, I worked with an outside firm on behalf of a very large company to do an analysis of the

market potential during the time when we were still working on the guidebook.

And we do not feel broadly within the BC that overly enthusiastic forecasting – which is what people do – coming from sales and marketing, I understand that sometimes salespeople are overly enthusiastic in their forecasting. Now I'm speaking just for myself, I don't see any penalty to registries over forecasting, which then puts ICANN in a position of perhaps having an overoptimistic forecast of the number of names.

I also do not see the kind of marketing and advertising that is needed to support market introduction of names that have no well-defined visibility. I will go back now to a comment that is more grounded in the discussions of the BC, and that is that we also have concerns about the trust factor of what we see worldwide is that people are becoming increasingly concerned about the online attacks, about malware, about viruses, about man-in-the-middle attacks, about DDoS attacks to online applications, and if you look at other general areas about market forecast, you see implications of that riskier online environment affecting the sales of other kinds of online applications, etc.

So the forecasting thing I will just summarize by saying we're not comfortable that even the present rate of forecasting is well-

defined. I'm looking for not just a forecast of numbers, because a certain TLD certainly could give away thousands to millions of names, but that doesn't result in a predictable revenue contribution unless they're charging something for it or subsidizing it in some way.

So when you said that you feel that the highly speculative actions have been flushed out of the system, I guess the answer would be we don't believe it. So we should think about what's the scenario if your forecast – you don't have to answer me here, obviously, but if this is still too optimistic, then here's our concern: we're going to continue to have to make cuts in areas that we are highly concerned about, which include those things that affect the security and stability and the resiliency of the underlying infrastructure of the Internet, the unique identifiers side as well as other activities that we're concerned about.

So that's my first long statement, and secondly, I personally am not interested in seeing an increase in the transaction fee per domain name. When I became involved in this, they were paying 8 cents a name and ICANN was starving to death. And it is Ron Andruff we all owe for having led the community march to raise it to 25 cents. 25 cents I think needs to be stabilized so that it is predictable.

So the concern on the part of the contracted party side that some of us might be looking to go after more fees, I don't think that's where – I have heard no discussion about that idea in the BC, but the reality is that it is more and more expensive to provide services to parties that are launching TLDs who have no real expertise or experience in this environment. And so the cost of services to a brand new player who doesn't have a strong backend partner adds cost to ICANN. And I'm just kind of interested in how that is factored into this.

I did have a clarifying question for Christine. Christine, I'm a little confused about when you say there are less than 25 to be delegated but there are 80 pending applications, if you could clarify that, and please explain the timeline, because I also have a concern that just putting a name in the root – I'm interested in the gap of time before there's actually – which you should be able to tell from your past 1200, what's the gap in time before the registries get to paying you money?

CHRISTINE WILLETT: In terms of strings, I've got the date in front of me. It's about two weeks old, so we might have had a few more withdrawals, one or two withdrawals since my team compiled this information at the end of February. We had 76 pending applications. 15 of those

were for the strings .corp, .home and .mail, none of which will be delegated this round.

We have three .amazon applications that are still the subject of ongoing community work, .halal and .islam, .persiangulf, but notably, we also have seven with applications for .web or .webs, of which we're looking at possibly two strings to be delegated. It's a matter of contention sets. Four for .gay, eight for .music. That's the difference. I can get the exact number of potential strings, but it's on the order of 20-ish.

MARILYN CADE: So 20 may be delegated. What's the timeline? Is it by July 1? Is it by the end of the annual year? Is it stretched over a longer period? Do you have a projection?

CHRISTINE WILLETT: All of the remaining applications have – with the exception of .corp, .home, .mail that the board has now taken action on – have some outstanding matter, be it a request for reconsideration, some accountability mechanism, some sort of litigation, so those activities are difficult to predict the timing of, but we do have a forecast of processing the applications once those accountability or litigation items are resolved.

The vast majority of these items, given probably optimistic, closure of those accountability mechanisms would lead us to a potential timeline to delegate by the end of FY20. So we do maintain a plan of those dependencies, and it is possible that those could all be delegated by the end of FY20. I say that with the caveat that there's always the potential for further accountability mechanisms to be invoked, or litigation or other mechanism that could halt us from processing again.

MARILYN CADE: And the estimated time on average?

CYRUS NAMAZI: Can I chime in?

MARILYN CADE: I'm happy to have anybody chime in who can actually give us facts.

CYRUS NAMAZI: Thank you. This is Cyrus with ICANN, and thank you, Marilyn, for your thoughtful feedback. I haven't had the opportunity, actually, to dive into the funding-specific feedback from the community, which just closed, and this is on our to-do list to get done when we get back from Puerto Rico.

So you raised several issues in your comments and questions. Just specifically to what Christine was saying and the issue of new delegations in fiscal year '19, this is actually figured into our model. The timing of the delegations and when the fees would be generated is also figured into the model, so it's a timing specific thing. Whether it's on month 1 or month 12 obviously makes a difference.

But overall, I'd like to highlight the fact that even if we had 20 new gTLDs delegated on the first day of July – which is the first day of our fiscal year – that overall, the total impact of that to a $135 million budget would be $500,000.

MARILYN CADE: That's what I was looking for.

CYRUS NAMAZI: Yes.

MARILYN CADE: Because I considered it negligible.

CYRUS NAMAZI: Exactly. So let me expand on that a little bit, because the budget of $135 million consists of several major buckets that contribute to it. The biggest contributor to it, as you likely know, is the

legacy transaction fees, so that's a very substantial piece of it. I think about $80 million or so, Xavier, if I'm not mistaken. Yes, there you are. So that's a very big component that fortunately for us is pretty solid and steady and stable, as Xavier was pointing out today.

We have actually the historical transaction data for all the legacy transactions going back to I think the beginning of time. Mukesh actually keeps these for us. It really is, and it's very predictable. We actually had also this bump that I talked about with new gTLDs mainly being driven out of China. It also actually propagated itself into the legacy transactions with .com and .net. So .com and .net actually had a big bump in that time period as well. That also worked its way out of the system and is now back to the sort of steady ship that it is.

So that's one big bucket. The second big bucket for us is actually the fixed fees that the new gTLD registries pay to ICANN. Each of them pays us $25,000 a year. Substantial part of these, I think better than – Christine can correct me – 98% of all the gTLDs have been delegated already, so that's also what I call cruising altitude, about $30 million or so. So now you're getting into the last 10-20% of the budget that is, frankly, a bit harder to forecast.

The new gTLD market is a new market, there's not a whole lot of historical data. It's still at what we call the embryonic stages of it. So you get some registries that maybe they get impatient or they have these wonky business ideas, they go give away millions of registrations and names for a penny each, and they probably have an idea of why they're doing that and all of that. But obviously, at that sort of rate and at that rate of what they charge for it, it's not a sustainable thing to do. And it remains to be seen how this market is going to play itself out. So all of that has worked itself out for us.

Now, in terms of the opinion that even the forecast for new gTLDs that we have today are too aggressive, I don't dispute that. I think this is anybody's guess. It is a bit of a guesswork. We also track actually – Mukesh has a very detailed spreadsheet that lets us track the top 15 I think it is –

MUKESH CHULANI: We're tracking on a separate basis all the strings which have in excess of 500,000 transactions, and there's 11 of them at the moment. And we're tracking those separately in order to get a view of these outliers. So when and if a campaign comes up, we can kind of spot it ahead of time and then dig in to see whether we would expect that to renew a year onwards. So it's not a

haphazard number that's put in there, it's with that level of granularity.

CYRUS NAMAZI: Thank you. Mukesh. This was a very significant point, meaning that we actually see that if there is a promotion going on in one TLD, we actually record it. Then we know typically most of these expire after 12 months. So we can sort of keep track and see if there is movement for renewal of these names, how organic the demand for them and how inorganic it's been, organic meaning that there's real demand and going to be sustained.

MARILYN CADE: Can I just ask you another question?

CYRUS NAMAZI: Yes.

MARILYN CADE: Do you also track whether or not the domain name is associated with a website? Because that's usually a good indicator of whether it's going to renew.

MUKESH CHULANI:	No, we don't track the linkage because we essentially don't have registrant data available to us. So we don't know that the existing domain was the one that renewed. We have counts, but we're not looking at it from an individual string perspective.
CYRUS NAMAZI:	Thank you, Mukesh. Let me also add to that, Marilyn, because the CCT Review Team actually conducted a study on the actual usage of all gTLDs, including new gTLDs. And the ratio of the registered domain names in what we call the legacy is actually quite aligned with the ratio of the new gTLDs. So I'm not sure if the usage would necessarily add too much sort of scientific fact to how you end up forecasting this. So it would be a nice to have to have data point at the end of the day, but I'm not sure if it would help us totally fine tune our forecast.

But let me also move on to I think address your statement about the forecast for new gTLDs is still too high for FY19. Let's actually look at it holistically, because the number of billable transactions that we're forecasting to be increased from FY18 to FY19 is about 5.8 million transactions, which in the scheme of things also is rather insignificant when you think about the legacies are at 170 million.

So even if we say our forecast is off by 50% and you cut that in half, the contribution of those 5.8 million transactions is about

$2.3-2.4 million. So if you cut that by half, that's how far off we would be. So again, it sort of falls into the category of, "Well, how much effort do you want to put into this to ascertain whether it's $2.3 million or $1.5 million?" Because even when the transactions move up and down by a large percentage number, the contribution dollar-wise is not terribly significant.

The thing that actually sort of ended up impacting us in FY18 is that we had actually forecasted I think 42 million transactions which we have now lowered to about 22 million. And at that rate, it does become significant.

The last point that I'd like to make is to also remind you that there are new gTLDs being now launched by rather significant players. Google just launched .app, so we also have to keep in mind that some of the bigger players with bigger, more substantial marketing plans and reach and things are also coming into the market. So it's not just the historical data and gTLDs. What I personally consider to be more interesting I think business plans are still sort of awaiting to be launched. I know another very large player with dozens of gTLDs, they tell us that they have very significant plans to continue to launch slowly. .app I mentioned because it's public information, Google just announced it. And we feel quite a bit of a buzz, actually, around that. How that translates into anything? Well, it's a forecast.

So these are the things that sort of go into our thinking and our forecast. But my last comment is that I would be very interested, frankly, to sit down with you and the BC folks who have ideas and insights into some of these assumptions to learn more. We're very open to learn. To Xavier's point, we're trying to forecast essentially 18 months in advance for a 12-month period. So I hope that helps.

MARILYN CADE: Thanks so much for that, both to you, Christine, and also to you two.

XAVIER CALVEZ: I think we have a question or comment from Sébastien. Please.

SÉBASTIEN BACHOLLET: Thank you. Two comments. The first one is that I guess that one who are in contention, those new gTLD, will come to the root now. And if they are in contention, it's maybe because they were hoping – there were multiple people who were hoping to make a good case of that and make a lot of domain names, not to talk about money. Therefore, it may evolve the situation, but still, the gross is – it's interesting, the fact that I don't see big difference at the way the new gTLD introduce today, even with those numbers compared to the one in 2000. In fact, the growth

of the legacy TLD parallel to the new gTLD is almost – I have the impression – still the same.

My second point is that Marilyn talk about business model. If I remember well, in the application, you were supposed to deliver a business model and there were figures there. And I would like to know if you accept when it was review, if it's something you take into account. And I will be very interested to know where we are compared with those business models for the ones who are on the root today. It will be very interesting. I think it will be a lot of work, but I really think that it will be fascinating to have this information. Thank you.

CYRUS NAMAZI: Thank you very much, Sébastien. As usual, very thoughtful insights. To your second point, I don't think we actually have access to the business plans necessarily. I think these contracted parties actually guard these things quite closely, so I'm not sure if that's what you meant, whether we have the ability to sort of go back and look at what the projections are.

The only thing I can think of is some of the projections or the projections that were provided for us – and Christine I think can chime in more on this – for the CIO. Is it the CIO, Christine? Am I calling it correctly? The projections that were there for emergency transition. Let me hand it off to Christine. But I think

those were frankly pulled out of thin air with no science behind it. But maybe Christine, you'd like to chime in on that.

CHRISTINE WILLETT: Sure. Thanks, Cyrus. Applicants to the new G program provided some format of business model, business plan as part of their application, and they took various formats. It was not something that we evaluated like a VC firm might in terms of the full nature of that, but as Cyrus is pointing out, the projected transaction volumes correlated to the number of domains under management, and therefore the level of funding required for their letter of credit or continuing operations instrument. So based on the number of transactions that led to how much money they needed to put into that letter of credit.

So I suppose there could be a comparison done. And for those letters of credit, my team operations does confirm that we look at the number of domains under management and confirm that there is a sufficient letter of credit on file and on record for every registry operator. And if we see the registrations exceeding the plan and the letter of credit, then we do ask for a revision there.

XAVIER CALVEZ: Thank you. Can you go back one slide, please? Thank you. Two. Three. Thank you. So we were on the Slide 30 of the

presentation looking at the assumptions. So we've covered I think all the new TLDs. And thank you, Cyrus and Mukesh and everyone's questions to help us have a better understanding of this. So next Slide, 31, please.

So as we continue through the assumptions, registrar accreditation is another area of our funding that is broken out here on this Slide 31 by the application fee which is the fee that ICANN collects for any new registrar accreditation that is applied for by a company. This is a fee of $3500 that is charged for each new application.

Though there's been a wide range of variation in the number of accreditations of registrars over the past two years, or a couple or three years, with families of registrars that have been applied for by the hundreds in certain periods of time over the past two years, we are actually trying to retain a very conservative number of applications of registrars accreditation to approximately to 60 per year, which is a historical average that we have seen, excluding those waves of family of registrar applications encountered in the past.

So we are not using the drop catching pattern that we have seen in the registrar applications in the past few years in our averages that we use for the purpose of forecasting this part of our funding. We simply use 60 applications per year, which out of a

base of 2500 registrars, is simply basic renewal if you think about it, 2% also.

The accreditation fees themselves is once a registrar has applied and is accredited, the registrars pay to ICANN a fixed fee of $4000 per year. That's what this volume is, and we will talk about the number of application of accredited registrars that we are assuming for FY19.

The next fee is actually a fixed fee that's described as variable to make it complicated. The fixed fee is that it's $3.4 million in total for ICANN every year. The variable part of it is that that total fixed number is divided by the number of registrars at every quarterly period. That number may change, which is why the number per registrar becomes variable on a quarterly basis. This is really simply to make Becky's life more complicated because she's in charge of billing.

The New gTLD Program is also driving a funding number for ICANN on an annual basis. I simply want to be very clear on the fact that it's not new application fees or new fees that are charged and billed to applicants every year. It is simply trying to be simply the application fees that were collected all in 2012 for the New gTLD Program, or from an accounting standpoint recognized in funding on an annual basis at the same rhythm as we're incurring expenses every year.

So the $360 million or so represented in the application fees collected in 2012 have been collected, they are in our books, and we recognize in funding every year a small fraction of it as we incur also expenses. So if I look at it differently, for every dollar of expense incurred, we recognize about $1.50 or so in funding. It's not new money, it's not new cash income for ICANN that those fees were collected in 2012. Next slide, please, 32.

So this is giving you the various numbers and volumes that are the basis of the assumptions that we just looked at before. I will go back to what we were talking about on the registrar accreditation that drives the accreditation fee on an annual basis. So at the bottom of this Slide 32, you see a line that's called registrars. And Becky, remind me, I think these are – yes, as of yearend. So it's the end-of-year number.

You can see that at the end of FY17, we had nearly 3000 registrars. At the end of FY18, we are projecting 2217 registrars, which is a decrease – significant – of nearly 750 registrars. Those of you who participated to similar sessions last year may remember that we explained that we expected a contraction of the number of registrars and that we had reflected in our budget projections in FY18 a smaller number of registrars of approximately 750. And we were fairly accurate I guess in that projection simply because it effectively appeared that some of the families of registrars that had been creating that inflow of

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registrars in the previous years retracted and decreased the number of registrars that they had.

Of course, for these families, one registrar is a fixed cost of $4000. They have to have enough business in front of that registrar to justify that cost. When that's not the case, they stop their accreditation.

So the number of 2217 I think is simply – I believe, Becky, correct me if I'm wrong – the number of registrars that we had at the end of September, at the end of the first quarter of our fiscal year, end of September 2017, which is after this contraction, and that we're simply assuming is going to continue as is for the remainder of FY18. And we also do not expect further contraction during FY19, which is why you see that the FY19 budget also uses this number as the number of registrars. Marilyn, please.

MARILYN CADE: Thank you. This is such an essential sharing of information, and I really want to say again how much we appreciate it. And I feel comfortable saying because we've said it in the BC comments on behalf of the BC as well, but I'm just going to make an observation, just an idea. Because now I can't remember. Is that explanation embedded in the written description? Because I think it's a really important one, because otherwise, somebody

reading it is going to say, "Why did it go down so much?" And if it isn't, then maybe – I know you may not like footnotes, but something like that might deserve a footnote, because some people are only looking at these charts. They're not reading the brilliant prose.

XAVIER CALVEZ: Thank you, Marilyn. You're helping us. For those on the phone, Sébastien is commenting with gestures on the comment from Marilyn. You're reminding us of something very important, that I think we're explaining that we're keeping it stable but were not explaining why we're doing that though there's been a decrease from the previous year, and it's so fresh and present in our minds that we fail to reexplain why there had been a high number of registrars in the past that has decreased since. So we take note of having more extensive description of the rationales to the assumptions that we're taking, because you're right, it's not indicated here why the contraction occurred and when, and therefore why we're doing what we're doing.

So thank you very much for that comment, because I don't believe we have in the document – this is the slides extracted from the public comment document. I don't think we have in that document further descriptions as to why these assumptions

were determined. So thank you for that, Marilyn. Thank you. Can you go back to Slide 32? Thank you.

You see here as well on the top end of the schedule the number of transactions in millions that is being used for the assumptions that you have seen in the previous slides, split between the legacy TLDs and the new TLDs. You can see here the 22 million or so of registrations for new TLDs that Cyrus was referencing is our current volume approximately, and you see that it's slightly below though in the same range as FY17, and that you can see the growth of approximately 30% that Cyrus was mentioning earlier on the new gTLDs' volume of transaction.

And as Cyrus was saying, the 6 million or so of additional transactions represents about $2.5 million of funding for ICANN. So if you assume that we're entirely wrong with the growth and it would entirely not happen, it would be a shortfall of $2.5 million for ICANN. Not that it's not significant, but it's also not a radical change. It's less than 2%. Thank you. Next slide, please.

So we had started looking at this slide a little bit earlier when we were commenting on numbers. This is a little bit detailed, we're on Slide 33. But it provides the view of the breakout of all these various categories of funding for ICANN, and in colons, you have the best estimate on the left compared to the FY18 forecast so that you can see how things are expected to evolve. And on the

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right, you have the high and the low estimates that result from these high and low assumptions that we've gone over earlier.

So I'll look more specifically at the totals at the end so you can see that the FY18 forecast is at the $135 million or so of funding, that the numbers that result from assumptions that we just described for FY19 is $3 million or so above that, which is a fairly minimal growth of 2%-2.5%. And we also reminded everyone of what he FY18 budget numbers were. So FY18 forecast at $135 million, but the FY18 budget was expected to be at $143 million, nearly entirely driven by the lower volume of transactions on the new gTLDs as we have been discussing. And the rest of the budget for FY18 is fairly consistent for the other categories of funding.

So you may have heard through various discussions over the past few days or weeks about a decrease of ICANN's funding. I want to emphasize that it's a decrease in expectations, not in reality, both being true. So yes, we have lower expectations of funding in FY19 than we did for FY18, but what we're expecting for FY19 still represents a slightly higher funding than what we're expecting now for FY18.

So it's a revision of expectations, but it's not a decrease of funding. It's slower increase of funding. I hope it's clear. It's

MARILYN CADE: I'm going to say yes, but. Right? Because if you run a business, you look at both sides of the ledger. And so our expenses are increasing. And because of that – and I'm looking at a couple of people in this room who I know, Maureen, Tijani, the BC, the IPC who all raised significant concerns about the reductions – Cheryl – in certain parts of the Budget and Operating Plan that affect us.

So I hear what you said, I understand it's factually true, but the implications for some of the comments – and not just the comments from us, from the people in the room right now, but also the comments that address things like the aspects related to security, stability and resiliency, particularly I guess if nothing else this outage of Adobe Connect is kind of a shock to the system about how vulnerable online applications and services can be, reminding us that one of our major responsibilities at ICANN is ensuring that the underlying infrastructure that ICANN is responsible for coordinating – not managing, but coordinating – is an essential part of the cost.

We don't need to dwell on this, but I guess I'm just a little uncomfortable with the idea that we're saying we're going to

have slightly more money but we're also making, I think, a fairly significant cut in some aspects of the spend side.

XAVIER CALVEZ: Thank you, Marilyn. And I ask Becky to go back to the Slide 19 that we showed earlier, simply to illustrate what I was saying earlier on funding, that the expectations have been revised in that our expectation of funding was revised down, but the funding expected is not decreasing. And we have correlatively the expenses, which was the topic of the comments from Marilyn just now.

So as we said earlier, we had funding of $135 million in FY17 that we expected to be the same in FY18, and now we are expecting it to be the same for FY18. And the budget of FY19 is slightly above that, by $3 million.

The expenses of ICANN were of $128 million in FY17, expected to be of $137 million in FY18, and of about the same in FY19. So I think Marilyn, what you said is completely accurate, but I want to emphasize that the expenses of ICANN are basically following the same pattern – of course by design – to ensure we never exceed our funding available. And as a result of that, because in any organization this size, there are things that go up and when the funding is flat, then there are things that need to go down.

Now, it's never an easy exercise, which is why budgeting is useful in that we want to try to be as explicit as possible on the assumptions that are made on expenses. But we are in an environment in which with stable resources, new activities that are necessary will need to be matched with activities that we will need to reduce or do more efficiently, or at lesser cost or maybe a little bit later. And that's completely normal management of resources by any organization. So it's simply something that the ICANN ecosystem has not had to do to a large extent in the past, and I think would simply will need to do it more systematically in the future.

BECKY NASH: We have a question from Tijani. Please go ahead.

TIJANI BEN JEMAA: Thank you very much. It's not a question. What you said is exactly what is happening. People in ICANN – and even people in the staff of ICANN – still say or perhaps still think that there is a decrease of our funding. There is no decrease. There is an increase but with smaller pace. That's all. And this is why I don't like this spirit of crisis. It seems that people here think that there is a financial crisis. There is not. All is about how to limit and how to control the expenses. That's all. But we don't have a problem

of funding. If we speak as an engineer, the speed is increasing but the acceleration is decreasing.

XAVIER CALVEZ: Thank you, Tijani. Can we go back to the slides? I think we're also 15 minutes from the end of the session. The next topic that we wanted to cover is the strategic planning. So we have two topics that are left. We have the strategic planning process, and Nathalie is here to help us go through that. We have also the reserve fund replenishment topic which we're offering to discuss.

As always, we've been flexible with the interest of these conversations and let them run as they are of interest. I think I would want to offer a choice for our participants here. There have been a lot of conversations already about the replenishment of the reserve fund and there's currently a public comment undergoing on the topic with a document that is existing.

I would therefore suggest to maybe look more specifically at the strategic planning over the next few minutes, and if we're done with this, then we can move to the replenishment of the reserve fund. But since there's less public information on the strategic planning, maybe we do that. Does that work for everyone, or do you prefer to do the opposite? Okay. Thank you. So Nathalie,

Becky will start and Nathalie is here to help us if we have any questions. Thank you.

BECKY NASH: Thank you, Xavier.

XAVIER CALVEZ: And thank you for Cyrus and Mukesh to have helped us a lot with this conversation. Thank you.

BECKY NASH: We're now on Slide #35, and I just wanted to cover quickly a very high-level timeline for the planning process for FY20. And it also indicates estimated timing for the five-year strategic planning cycle, but only in a draft mode. This is more so just to talk a little bit about the fact that here we are in FY18 and we're approaching the last stages of the FY19 planning process. And again, the next several months we'll then arrive at the adoption of the Fiscal '19 Operating Plan and Budget.

But right prior to that final adoption, we'll actually already be starting the next fiscal year's planning cycle. So we have definitely understood that these two cycles need to overlap, and we just want to indicate that we at ICANN Org Finance have already started the planning process for FY20. And we will be

holding webinars later towards the end of FY18 on that planning process just to engage with the community on our process and our timeline.

So this is just more a draft to show that he cycles do overlap and that the next major milestone will be to then come into the process for the Five-Year Strategic Plan covering the FY21 through FY25. And with that, I will pass it over to Nathalie who can give us an update. We're now on Slide #36.

NATHALIE VERGNOLLE: Thank you, Becky, and this is Nathalie Vergnolle from MSSI. So I'm going to start with telling you a little bit about the strategic outlook program. It's a process that we started internally within the organization and with the board last year to identify trends that we see affecting ICANN, whether internally or externally.

It's a process that we are expanding to the community, and we're offering sessions. At this meeting, we run two sessions, one with the SO/AC leaders and one with the GAC, to continue exploring what trends we see affecting ICANN globally. We find this to be a very useful exercise to help us get into the thought processing of the next strategic plan. It helps align on what we see as main issues that are affecting our ecosystem, and it helps also think in terms of priorities of what we think should be our priorities. And so we really think that it's the preamble that the

Strategic Plan is going to be the answer to those trends that we're seeing. So it's really what is going to be our response to those trends that we're seeing. So right now, we're exploring those trends, and then the Strategic Plan will be the response to those trends.

So the next iteration of the Strategic Plan is FY21 through FY25, and as Becky mentioned, we do need to start working on this now given that the Strategic Plan needs to be defined so that we can build the Five-Year Operating Plan on top of that and then look into the Annual Operating Plan and Budget. So those things need to happen one after the other. We can't start working on the annual plan unless we have our Strategic Plan and our Five-Year Operating Plan in place.

What we're envisioning for the Strategic Plan – and those things are still being discussed among the organization and the board, and we're welcoming inputs to. We're envisioning for this next iteration of the plan to simply do an update to the current plan. We're not going to start from scratch again. So it's going to be an update, and it's going to address the trends that we're observing.

The board has formed a caucus of members who are going to be more involved in the strategic plan, and they're going to be taking the first pass of drafting a first plan that will be brought

up for discussion with the community. And we're hoping to start those discussions in Barcelona since we're going to be running more trend sessions in Panama, and then give us the summer to consolidate all of those inputs and see the kind of response that can be drafted into a strategic plan.

We will also look to include financials into this next iteration of the strategic plan. It's something that was not in the current strategic plan, and we think it's really important to align our resources with our strategic objectives and goals. And of course, there will be a public comment period following the discussions that will occur in Barcelona. And this timeline is still a draft.

The Five-Year Operating Plan will be a more detailed description of the how. So in the Strategic Plan, we just have the vision, the mission and the objectives and the goals, and then the Five-Year Operating Plan goes into the details of how we go about getting to those objectives and goals.

I will take comments and questions.

MARILYN CADE: Thank you so much. You may have heard the question yesterday in the BC, but just to be sure it's on the record here as well. The idea of holding the sessions with the constituencies and various stakeholder groups, etc., is a fantastic idea. However, just as an

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example, the BC barely has even 50% of our members attending in person. And so the question, the comment was also raised by one of our executive officers about our ability to find 70 to 90 minutes, and I echoed that with the comment in particular because it's during a very shortened ICANN meeting.

So I would just ask for further discussion within the MSSI group about what's the thought process about how – let's say we can find the time to do the session and we can find members who are willing to devote the time to it whether we do it jointly with the ISPs and the IPC or we do it by the BC, whatever. How do we then take the opportunity? We're going to have to go back and try – we are going to have to go back and say something to our full membership, I would think, John. Right? To each of us before we can actually say we're reflective of the members' views.

NATHALIE VERGNOLLE: Sure. So we think it's important that the process is run in person because it's a brainstorming exercise and it's very important that people have that opportunity to look at each other in the face and have those conversations face-to-face to come up with a set of trends that they think are the highest priorities.

Once we've done this exercise – and it's also a limiting factor, the fact that it's a brainstorming exercise, we cannot run it with

200 people either. So we do understand that it's limiting in the number of participants who can do the exercise. Once we've run the session, we will of course give you the outcomes in written, and what I would suggest is that you bring this back to your community group and that will give the opportunity to everyone to comment and to add anything that they would like to include at that point. We will also do a feedback loop once we've heard from all those stakeholder groups to provide that feedback to everyone on, "Well, these are the different outputs that came out of all those sessions."

BECKY NASH: We have a question from Sébastien. Or –

CHERYL LANGDON-ORR: Okay. Thank you very much, Sébastien. Having been part of the last exercise which was a radical departure from previous exercises where we did actually engage with community – shock horror – and I appreciate that and I want to see that continue, don't get me wrong. I'm on that side of the fence for sure.

There was as much one-on-one on what we were doing as there was – and the concept of even how to workshop – pardon my sighs and grimaces, you suffered with me as well so I know. We almost needed to prepare the community for the community

engagement to be even vaguely effective of time. And that was when we weren't time compressed.

So I would like to support the plan, absolutely, and plea for some preparatory work which is not just content-driven but construct-driven as well so that there is a clear understanding that this is everything and your kitchen sink as well thinking, that it is brainstorming, that it is blue sky, but that if you can come with some simply articulated constructions, that will help, and that paragraph length isn't important, bullet points of no more than five words are. That type of thing.

And you might even get some ICANN Learn stuff that could preload what you're doing. Because want to do it, but I'd like to do it effectively and efficiently.

NATHALIE VERGNOLLE: Certainly. So we won't be starting from a blank page. We'll use as a starting point a preliminary list of trends that the organization has produced on the basis of us running the exercise already for the second year this year.

BECKY NASH: Thank you. Now I think we have Sébastien who would like to make a comment.

SÉBASTIEN BACHOLLET: Yes, thank you very much. A few things. The first one is that – did I understand well that in next meeting, we will have the opportunity as SO/AC or granular level to have this interaction and presentation of the trends? That's my first question.

NATHALIE VERGNOLLE: Yes.

SÉBASTIEN BACHOLLET: Okay. I would like to say that even if I'm sure that SO and AC Chairs are the best ones to do this exercise, it may have been interesting to ask other people. And I would like to say that this group of people that we are talking about budgets since years will have been a very good group to engage in this work.

Okay, we have not chair, we are not whatever leadership position that it's recognized in this plan, but I think it would have been a very good exercise with us and for us because of the work we are doing with the finance.

My second point is that it seems to be with the previous slides that we already start the strategic planning because you organize meetings as a chair of the board, give us ten points to

think about in his opening remarks, therefore we're already working on the next strategic planning.

And my third point is that I heard to talk about multi-year budget or whatever the name given here. We talk about strategic planning and five-year operating plan, whatever. If it's two, four, three, five planning budget, when it will be done and with which process? Thank you.

BECKY NASH:

Thank you, Sébastien. Thank you for your comments. We acknowledge what your comment is about the strategic outlook trends and the sessions that have been run and will be run, and the last question that you mentioned was just regarding the variety of different processes that we've addressed here and in past sessions as it relates to our focus on long-term planning, multi-year planning, and then the five-year strategic plan and five-year operating plan.

So just to comment on that that in the FY19 planning process, we did talk at the beginning of the process about multi-year planning and how important it is in that the Finance Team and ICANN Org recognizes that planning for multi years is a best practice and that we really encourage it. In Document #2, which is the budget for the FY19 Operating Plan and Budget cycle, we did actually have our leaders and departments have a longer-

term view, and they did plan for FY19 and FY20, and we did include a schedule showing a trend through FY20.

The difference just is that at the end of our current Five-Year Strategic Plan, and so that it's much the work that is being discussed under the Strategic Plan and the Five-Year Operating Plan and the Annual Update, and now we are going to be collaborating with Nathalie's team and the MSSI Team on the upcoming strategic planning cycle. That is why we included a slide just talking about all of those processes happening and at the same time.

So I hope I answered your question, and I think that we will be tacking long-term planning under each of these processes and coordinating together on it, and I think the key point on this Slide #36 is that the Five-Year Strategic Plan will include financials, which the current Five-Year Strategic Plan does not include financials. Thank you. We have another question from Tijani.

TIJANI BEN JEMAA: It's a comment. I hate to disagree with Sébastien, but if you make a long period plan, it will not be accurate. You know that. The longer the plan is, the less accurate it is. So I propose that you do always the planning on one year, the budget and the operating plan for one year, for the year considered, and we can

make another projection for more than perhaps two years or three years as he's – which would be independent from the –

SÉBASTIEN BACHOLLET: What are we disagreeing?

TIJANI BEN JEMAA: I understood that you want the Operating Plan and Budget to be on five-years, on three years.

BECKY NASH: Nathalie, go ahead.

NATHALIE VERGNOLLE: So it's indicated in the bylaws the duration of the Strategic Plan is five years. One thing that we're proposing moving forward is to have a rolling plan. So instead of the current plan which is a fixed plan from FY16 to FY20 and hasn't budged since it was produced towards the end of 2014, we're going to look to revise the Strategic Plan if needed through the trend exercise as we're going to be looking at how our trends are evolving. If we see that an adjustment needs to be made and a different response needs to be made based on how a trend is evolving, then we can make the decision to revise the Strategic Plan or the Five-Year Operating Plan year after year.

TIJANI BEN JEMAA: Sorry, I was speaking about the Operating Plan and Budget. I wasn't speaking about the Strategic Plan.

BECKY NASH: Thank you for that clarification. Well, one more question, and then from there, we're going to have to close the queue because I think there's group that's coming in after us. But please.

UNIDENTIFIED MALE: It'll be quick. John [inaudible] for the record. We were kind of discussing offline here that this will be coming, or at least ICANN62 will be coming right on the heels of GDPR being enacted, and I think a lot of people, particularly in our various groups, are going to very much have their time taken up with that. Marilyn, you were saying – you do you think you can get all of your members focused?

MARILYN CADE: I think what we would forecast is that – I'm just going to give an example. GDPR has sucked all the air out of the room at this meeting for things that we had planned, and we had to readjust our schedule, call for additional meetings, additional sessions. Right? I'm not being negative about it, I'm being pragmatic

about it. I think it's highly unlikely that the majority of – like right now, I'm here, [inaudible] is here, Jimson – who's our vice chair – was only able to be here part time, and you may have noticed that in two earlier meetings, sometimes it was me, and sometimes it was only John and sometimes it was the two of us, [inaudible] and myself.

So you have to be practical, I think. It's a short meeting, and the complexity of and the implications for the security and stability of the Internet if WHOIS is fragmented or goes dark, it is keeping us up at night, and it'll still be keeping us up.

NATHALIE VERGNOLLE: Thank you. I fully understand that. The reason why we're offering to run additional sessions in Panama is because we came in pretty late into offering to run these sessions here in Puerto Rico, and we know that it's been difficult for many of you to schedule these sessions here. We understand that next session is a policy forum and not necessarily the right place to do this.

Moving forward in the future iterations, we'll probably look to schedule these more in advance, more at the March meeting than in June. Also understand that this is just a first step in the process and there are going to be plenty of other opportunities

for the community to contribute in the elaboration of the Strategic Plan as we continue down.

BECKY NASH: Thank you, Nathalie. Well, everyone, our time has arised to close out this meeting. First of all, I want to thank all of the community members and participants both here and remotely. I would like to thank our board members who attended this meeting and all of the guest speakers. And we appreciate your feedback. Feel free to e-mail us at planning@icann.org, and please join our community finance e-mail list for future sessions. Thank you.

[END OF TRANSCRIPTION]