MONTREAL – FY21 Annual Operating Plan and Budget and 5-Year Operating and Financial Plan
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BECKY NASH:	Thank you, everyone. I know there's been just a few minutes for getting gathered and in the room. We're going to go ahead and get started now. Just to start this session, this first slide gives an introduction to the planning team. Several of us will be presenting this afternoon. Just to highlight, we have Xavier Calvez, Susanna Bennett, myself, Becky Nash, Shani Quidwai, Mukesh Chulani, and Victoria Yang, all here with us today.
	The agenda for our session today is regarding the planning process. We're going to start with a planning process overview, then we're going to cover then five-year FY21-FY25 operating plan and financial plan. Then we're going to go into the fiscal year FY21 operating plan and budget, and then we have several slides on community involvement, and time at the end for Q&A.
	For this first—
XAVIER CALVEZ:	Becky? Sorry. Before we go further, I just wanted to acknowledge and introduce for the participants that we have two members of the Board Finance Committee present in this session who provides oversight to our team on the entire planning process and many other financial matters. We welcome very much those two members. This is Tripti

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Sinha here and Danko Jevtovic here on my right. So thank you both for participating.

BECKY NASH: Thank you, Xavier, and, yes, thank you to the participants from the Board Finance Committee. In this next session, we're going to talk about the overall planning process. Just as an overview, the five-year strategic plan was adopted by the ICANN Board in June 2019. The strategic plan is going to be complemented by a five-year operating and financial plan. Development has been going on over the past few months with interaction via public comments with the community, Board, and ICANN org.

The strategic planning is a core element of ICANN's threefold planning process, which is the subject of our webinar today, where we have the five-year strategic plan, the five-year operating and financial plan, and then the annual operating plan and budget.

The process of developing an operational and financial plan may lead to calibration of the strategic plan during the term of then five years. This is just to focus on realistic ambitions.

On the right hand side, we talk a little about then overall planning process of starting about where we are now, looking at the strategic plan, where do we want to be, and then, looking at the five-year operating plan and financial plan, how will we get there, and the one-year operating plan, who or what resources will be doing what. Then we finalize that with an achievement and progress reporting of how we are

doing. The planning cycle does end with ongoing progress reporting and a report out on achievements.

This next slide talks more specifically about the planning documents and timeline. Again, we're going to be covering a lot of information today. The five-year strategic plan outlines ICANN's vision and mission and sets out five strategic objectives and related goals based on areas of challenge and opportunity for ICANN to shape its future successfully.

The next key document is the five-year operating plan and financial plan. So it's going to cover fiscal year '21 through fiscal year 25. The operating plan will include a financial plan with financial assumptions and high-level projections of a base case/high and low funding scenarios for that five-year period.

The next document is the fiscal year '21 operating plan and budget, and that outlines in more details the focus of the efforts and the organizational commitments for the upcoming fiscal year.

The table at the bottom is a reminder that we did have a public comment period that ended in July for the five-year operating plan and discussing items like the operating initiatives and other key elements. Then we are preparing right now these two sets of documents, upcoming for public comment. We'll be going into more detail during this next part of the presentation.

Before I had this over to my colleague, Victoria, we would like to offer that we'd to take questions at the end of natural sections of this presentation. So after Victoria concludes the next session, we can take

some Q&A. Then, after we finish the funding assumptions section, we can take some Q&A. Then we have Q&A at the end of the section.

Victoria?

VICTORIA YANG:

Thank you very much, Becky. Hi, everyone. Thank you so much for coming. I will be speaking about the five-year operating and financial plan overall process and approach. When ICANN org kicked off the planning process for the five-year operating and financial plan, the planning team and the executive team came together and discussed how can we best approach to best communicate what does the ICANN organization do and also highlight the key focus area that we need to work on in order to achieve the strategic plan.

On these slides, you will see that this is the result of the highlight of the overall approach. When we looked at the draft strategic plan, the executive team came together and discussed each objective goal and the targeted outcome and derived 16 operating initiatives. These operating initiatives are the focus area for us to really emphasize in the next five years in order for us to achieve the major objectives in the strategic plan.

The operating initiatives are not all new. Many of the operating initiatives are the works that we currently are working on but putting more emphasis on that this is something we need to focus on, although some of them are fairly new initiatives.

There are some initiatives that are also with the intention to look into I – these other things that we have been doing – and reevaluate whether or not there's any change we need to implement in the next five years so we can be more agile.

The second approach here is really focus on the high level for various good reason. First of all, we are planning for the next five years almost two years in advance. So we are looking at a seven-year timeline. The environment we are in, operate, and live in changes rapidly, so we have to make sure we can cope with the change to be agile. So we should focus on the high level to be able to communicate what are the key focus areas so that we are not lost in the day-to-day tasks.

The third highlight is collaboration. As I mentioned, it started with the executive team collaboratively deriving the operating initiative, followed by each functional team developing their plan. We also conduct many cross-functional discussions where we ask functions to come together, explain, and share their plans and see how they can collaborate to help each other to achieve the strategic goals.

Lastly is the financial aspect that we incorporated. This is new. For the current five-year operating plan, we do not have financials embedded. The Board, the community, and org worked really hard to make sure that we have the financial aspect embedded in the operating plan to make sure that we stay physically responsible to our finance aspect. So the financial includes the low, medium, and high scenario, which I believe my colleague here will dive into more.

As Becky mentioned earlier, in the overall planning process there are a lot of documents. We have the five-year strategic plan, then we have the five-year operating plan, and then we have the annual operating plan and the budget. So we understand it's a lot for the community. There's a lot of documents to review, to suggest on, and then to provide comments. Plus, many of the documents are a little bit different in either style or the format or the structure. So how can we make it easier or how can we make it more efficient? For this year, we are trying to align the five-year operating and financial plan together with the one-year operating plan and budget, at least structurally, so that the two-plan looks very familiar with each other and it's easy to understand. Once we publish the draft, we will host webinars so that we can help to explain through the document and enhance your understanding so that you can participate more meaningfully.

The next slides. At a high level, both the five-year and the one-year operating plan, we'll communicate what does the ICANN organization do. For example, take a function. What will be the purpose of the function? What are the activities the function carries out? What are the strategic targeted outcome the function supports? How is the function resource going to evolve in the next five years? And, of course, what are some of the considerations. That can include risks, dependencies, and challenges. And how do we measure the work? So these are the key elements, of course, to be included in both the five-year and one-year.

However, at the five-year level, as explained earlier, we are almost planning and looking at a seven-year timeline. So it will be at a higher level compared to the one-year, whereas for the one-year, we are

closed to it so we know more precisely about what we are going to do exactly. Of course, there are events we can't predict, so that's why we always have the contingency bucket that the finance team will explain as well to make sure that we have funds allocated for contingencies, for unplanned events.

The next slides again highlight on the two phases. As I introduced just now, there are two new elements in the five-year for this cycle. One is the operating initiative, which we didn't have before, and the financial element, where we shared the financial assumptions that we use to derive the projections of the three scenarios. Because this is new and we would like to get the community's feedback, we designed the process to have two phases. In June, we published two documents which are the assumptions and projection for the financial and the operating initiative to get the community's feedback. With your feedback, we are now continuing to develop the draft so that the second phase will be having the draft ready by December and then posted for public comment.

In the next few slides, I just want to provide a quick highlight of the first public comment. As mentioned, there are two documents posted for public comment. One is the financial assumptions that helped us to derive the projections, where we provide the baseline, the low and the high, for the next five years, and ask the community, "Are the assumptions that we used for the financial projection sufficient? Any feedback?"

The second is the operating initiatives. We published 16 initiatives. Of course, in Phase 1, we only explained why these initiatives are important and what are these initiatives about. The question for the community is, are these 16 initiatives sufficient enough for us to achieve the strategic plan? We got great feedback. The public comment was closed on August 5th, and we posted a summary of the public comments two weeks later.

Overall, we received eight submissions. Thank you so much for those who submitted and commented on the two documents. I recognize some of you who sit here, and I really want to extend my appreciation. Overall, these eight submissions include 98 comment. We are very pleased to see the support from the community. As you can see, the first two [columns are] comments that are expressing support or support with some added. For those comments that fall into the category of either expressing some concerns or having recommendations, we immediately distributed this to different function who are the subject matters of that subject to consider it as they develop their plan and also provide a detailed response to your input.

The next step is, when we publish the draft operating and financial plan in December, we will be publishing a separate document, where we're going to list all the 98 comments that we received from different ACs and SOs, including individuals, and also the response that the organization provided to each of the comments of how your input is being considered and addressed. So we will have that posted as well for your consideration.

The next public comment will be in December and lasts until the end of February. We plan to have webinars so that we can have the opportuning to explain to you – it's going to be a large document – the structures, the sections, and the highlights so that it will enhance your understanding and you can participate more meaningful in the draft public comment.

With that, I will hand it over to my colleague, Mukesh.

UNIDENTIFIED MALE: An opening for Q&A, right?

VICTORIA YANG: Yeah, you're right. Thank you.

BECKY NASH: We just wanted to pause here after this section before we move into funding to see if there were any questions about the documents, the structure, or any other comments as it relates to the five-year operating plan and financial plan.

If not, we're going to move then into the next session, where Mukesh will be presenting on the funding assumptions for the five-year operating plan and financial plan.

MUKESH CHULANI: Thank you, Becky. I guess I got a little extra time. Thank you, everyone, for being here. My name is Mukesh Chulani. I represent the Global

Domains Division. We're going to cover today the assumptions and, more important than the assumptions, the approach (in my opinion) towards the development of then five-year funding projections.

To someone who doesn't really even know what he's going to have for breakfast tomorrow, how do we forecast this far into the future? Prior to covering the actual values, I thought that it would be more helpful to present the approach that we took to develop the forecast. In fact, I think the majority of the time I will spend will be covering those. You can anyway examine the resulting values in the published documents we have.

Really you see here on the screen here in front of you the three-step process we undertook to arrive upon the five-year funding projection. The first one is the marketplace horizon scan. The second one is the corresponding formulation of our assumptions based on that scan and then the generation of the forecast. What do we mean by each? I'll cover that in greater detail.

Move to the next slide, Shani. We kicked off the process by evaluating key factors that have had a significant effect on the DNS industry over the past five years, and we also considered the impact of both the supply side and demand side factors over this five-year horizon, '21 to '25.

What we did was engage with an independent industry analyst to summarize some of these key historical and forecast trends. The trends you see in front of you are the result of a pretty comprehensive scan. So they're based on interviews with industry representatives. They're

based on a review of publicly-available information. They include the scan, for instance, of investor statements, regulatory filings, news profiles, obviously. We have also included the historical domain transaction data. You'll see here the nine major trends uncovered as part of the horizon scan.

I'll put a little caveat here in that you can think of this exercise similar to the parable of the nine blind men or eight blind men and the elephant – however many blind men there are. You're feeling around in the dark for trends which may extend into a horizon and, as Victoria mentioned, seven years into the future. That process, of course, because we're doing this annually, is something that will evolve over time. I don't think we ought to really get too stuck on whether you have a varying opinion on the perspective of the trend, but more important is whether you believe this trend is not valid at all. If you feel that this is a valid conception of a trend, even though it may not be one you share, I think we can move past it. But if we for instance missed the trunk of the element and now we think this is a dog, that's a bigger problem. I think I've hopefully made that a little bit clear.

The results of the scan essentially revealed nine trends to us. One is that new gTLDs were enablers of market growth over the past five years. The second is that the release of those new gTLDs allowed for new business models to emerge. A third is that the concept of the domain name is still key in terms of establishing an online identity. The fourth is that there are platforms to bypass domains, and those could be a drag on demand. But the challenge is still uncertain. Fifth, there's consolidation, there's movement, there's vibrancy in terms of the

supply side of this environment. Sixth, there's regional disparity in adoption rates. Seventh, there's challenges in this marketplace corresponding to a lack of universal acceptance, which hinders the adoption of new types of domains. Eighth, there are technical challenges which also hinder adoptions of domains. Ninth, there's some emerging privacy regimes which make growth of domain names uncertain. We don't know quite the impact, but there's some uncertainty with respect to that. So these are the major trends uncovered.

Of course, Jonathan.

JONATHAN ROBINSON: Hi. This is fascinating because I know you're working your way through this and here you see the results of this horizon scan. When I look at a couple of them – for example, number seven (lack of universal acceptance) and number six (regional disparity in adoption rates – if you were a commercial business or a business, you would seek to direct resources to influence one or more of these factors, right? And yet, from your perspective, I suspect … This is, I guess the question: Do you see yourselves as simply reading these marketplace dynamics and using them to forecast, or can you see any way in which you might respond to these, and the "business" would react to those market trends and deploy resources to shape your funding – I know you don't call it revenue – accordingly?

MUKESH CHULANI:	Thank you, Jonathan, for the question. It's something that I've encountered personally a lot in forecasting, where sometimes you wish something into being or you project something into being. We're rather careful of that within ICANN because we are very careful that this exercise is generated specifically for this purpose and does not represent ICANN's official position on things with respect to these nine trends, for instance. We have stated that in the public document and I should state that very clearly here. Being in its position, ICANN's statements could be taken as guidance by the publicly traded companies we have. It could be misunderstood. That's how I'm saying it. These nine trends are here for specifically for the purpose of generating the forecasts.
XAVIER CALVEZ:	If I may add on top of that, Mukesh, to your point, Jonathan, ICANN being what it is, we are using this for our selfish purpose of producing forecast information for our own funding. But, as you noted, a number of those trends are activities that the ICANN community is participating in in trying to affect, for example, universal acceptance. There is the UASG group that is working on improving this a community-based effort. So a commercial business would throw resource, as you are saying, to affect those parameters. In ICANN's role, it's going to be community-based directions in desires and therefore efforts that will effectively affect some of those parameters to the extent that there are in the remit of this community. Thank you.

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JONATHAN ROBINSON: Thank you both for your responses. They were different and I understand both of them: the sensitivity of being seen to forecast market and that … I still think that is worth putting that into the mix. We don't need to get into a dialogue now, but perhaps Danko or something can think about taking that to the Board, where the Board thinks, "Hang on. This could influence where we direct resources because we are not totally passive respondents to our funding, and the domain name industry, which generates all of our funding, does all of this work. Actually, we could, as a Board leading the community in some ways, seek to direct how we behave as a community and where we deploy resources."

So it's an interesting one, and I don't think we need to, as I say, go down a rathole on it now, but it certainly strikes me as I look at that now – the point that I make – that ICANN org and/or the ICANN community could respond to certain of these market trends and say, "Hang on, ICANN org. Why not shift resources to shape some of these accordingly, especially to the extent that they were positive for ICANN's funding or accumulative?"

DANKO JEVTOVIC: Thank you for mentioning the Board. Of course I agree very much with you. The most important thing from the strategic perspective is the strategic fit. We are aiming to get that, but also we are aiming to get with our strategy buyout from the community also because the strategist Cherine has said so many times because it's so important for his tasks or whatever they call it for the Board, for the org, and for the

community. In the strategy, one of the things we identified, for example, universal acceptance, and we are focusing on that.

But going into this exercise now, this is something that is done for the planning. For the planning, we need an understanding of the realistic funding that we'll actually get. So this is the exercise that is done by the finance team in the org to see what is the plan for the revenue for the next five-year period, having in mind what are the market situations but also having in our mind our strategy and what [ethics] have been preventing the strategy we are having.

So this is very important feedback that's more complicated in our environment than would be in a normal business-oriented market economy [inaudible]. Thank you.

MAUREEN HILYARD: I think I was just going to follow on a little bit from what Jonathan was talking about with respect, though, more for developing countries and IDNs – for example, the new gTLDs. There's applicant support for new applicants, perhaps, in developing countries. But with respect to universal acceptance – I know there's a lot of work going into that area; that's part of the plan … Sorry, I've got a [inaudible]. But the challenge of course is that there's lots of information going out into the communities but it's actually the software companies and it's those sorts of [inaudible]. So are we directing our energies into those areas that are going to make the difference with regards to UA? I guess it's looking at it from the viewpoint of, if we're planning for a successful universal acceptance, are we directing our energies in the right area?

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MUKESH CHULANI: Again, I just want to pull us back to the fact that this is specific to our forecasting exercise. But, having said that, when we do develop low and base case and high scenarios, we do figure the possibility of change in some of these areas. So, when we look at our high-end example, which I'll walk you through later on, in fact that does assume some change-up in what you're discussing with respect to universal acceptance.

You can move to the next slide, Shani. After the marketplace horizon scan, we enter the really most difficult area, I think, which is the formulation of assumptions based on the marketplace scan. Really, any forecasting exercise requires the reliance on assumptions. The assumptions you have by definition are hypothetical and they're potentially infinite. So you really have to put a stake on the ground based on where you see the marketplace going based on the horizon scan. I'll see you an example of how we've done that, for instance.

If you go to the next slide, Shani, hopefully this isn't so small print. The first blue box there with the eyeball on it is an excerpt from a finding from the marketplace horizon scan. It says, "The continued importance of controlling a domain name to craft and maintain a digital presence on the global Internet remains a key market enabler of the industry. What do we do with that?"

So, on a qualitative basis, here's what we do with that. We say then that the digital presence seems to still be reliant on the use of domain names. So, over the forecast period, let's then assume positive growth momentum for our base case and four our high-funding scenarios. Let's

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also, to account for maturation in this marketplace, factor in a decline in transaction volumes for our low scenario. So you see we're taking a finding from a marketplace scan and then slowly putting flesh to the bones of a forecast here.

Now, we then have to go one step lower and actually put in the values there. Qualitatively, what we've done is in the low scenario say we'll decline transaction volumes, and, at the base scenario, say a slight growth, and, at the high scenario, a slightly higher, stronger momentum. But what are the actual values you put in? That's the next question.

We can move to our next slide. And … I think we can go to the next slide, Shani. There we go. In general terms, let me describe each of these three funding scenarios without blinding you with the small print here. Our base case scenario, which represents the funding outcome we deemed most likely to occur, continues to take a conservative appraisal of change within the contracted party base. So, if you look at the average number of registries for our base case, we're projecting a slight decline. In the terms of the number of registrars, we're projecting fairly flat. Then, if you look at transaction volumes, we're saying there's a steady state of growth in the absence of significant marketplace disruption.

Now, recall we're going to do this on an annual basis. So, if the marketplace scan tells us something in the following year, we could fine-tune these assumptions. But we've said essentially is that the transaction volume growth will be 2.5%.

Now, if you look at the transaction volume growth since the launch of the New gTLD Program, it's been 2.3% or legacy TLDs, and, for new gTLDs, it's also roughly in that bucket. So we're essentially assuming a run rate for the base scenario here.

Now, when we look at the low scenario, what we're seeing is, beyond the retention of our current fee values, all drivers of ICANN's funding are going to decline. So, if you look at the low scenario there, you'll see registrar volume going down, registrar volume going down, and transaction fee volume going down. For each million decline in transaction volume, we have roughly a $400,000 impact to ICANN's funding. So you'll see the decline there of roughly 27/28 million transactions as assumed in the low scenario.

In our high scenario, we assume some resurgent growth. This is based on several assumptions: improved category management of new gTLDs, resolution of universal acceptance issues, greater uptake in emerging economies, the successful launch of pending new gTLDs, and a continued increase in marketplace awareness and uptake. So these are qualitative assumptions which, to varying levels, if achieved would contribute towards higher uptake of transactions.

I'll stop because I saw Jonathan's hand was raised.

JONATHAN ROBINSON: Just a quick question. On transaction fees, is it the case that registry transaction fees are now uniform across your contracted registries, or are there still some that vary from the standard fee?

MUKESH CHULANI: I can have our finance colleagues clarify this, but I think, to a large extent, there's very few left with a different fee structure. By and large they're on the same fee structure at this point. Please correct me if I'm wrong [here].

XAVIER CALVEZ: No, you're correct, Mukesh. There's very little of the legacy TLD operators that do not have the structure of $25,000 of fixed fee in 25 cents per transaction. Actually, Verisign is one of those, for example. It only has the 25 cents, but considering the amount that is covered by Verisign, the $25,000 is a very minimal amount in regards to the total that they contribute to ICANN.

JONATHAN ROBINSON: That's a good point. You can remind me. Is it $25,000 – remind me and others who may not know – plus 25 cents? Or is it $25,000 minimum?

XAVIER CALVEZ: The $25,000 applies to every single registry irrespective of the number of transactions or domain name registrations. Then the number of domain name registrations triggers a 25 cent-fee to ICANN per transaction, which is the annual increment of a registration or a transfer or deletion, above a threshold of 50,000 transactions, measured over four consecutive quarters. So a registry that has 100,000 registrations over that period of measurement will pay $25,000 per year plus $2,500

of a fee to ICANN on the basis of the domain name registrations that occurred. So the fixed fee happens all the time. The variable fee happens above the threshold measured on a periodic basis.

MUKESH CHULANI: John?

JOHN LAPRISE: Thank you. One question. Do you conduct and/or publish post-hoc analysis of the past forecast scenarios against actual? I'm looking at how good the models are historically. So a question about that. Thank you.

XAVIER CALVEZ: Thank you, John. I'll take that one as well. This is going to give an opportunity to publicly congratulate Mukesh and Cyrus for the precision of their projections. Yes, on a quarterly basis, we produce a comparison between effectively happened and the budget, which results directly from those projections. So these projections have been done now for several years, and what Mukesh Cyrus do is, every quarter that we bill on the basis of the most recent volumes of transactions, use that information in reforecasting that information. So that's one thing that we do. Then, of course, we compare the actual data to what we said we thought would happen. That helps, of course, the team refine the numbers.

Just for information, the rate of precision of the last versus what actually occurred for FY10 is 99.8%.

MUKESH CHULANI: I was thinking of opening a data center with that. I just wanted to draw your attention to the last three rows of this and then take you to the next slide. Shani, if you can … Essentially, here's really the visual representation of what we are saying. What we've had here is a marketplace that saw hypergrowth between FY14, FY15, and FY16. We're started to see stabilization in that marketplace, starting with FY17, '18, and '19. If they extend that trend then, we have three scenarios here. The low scenario is a growth decline, essentially: 2.7% compound annual, assumed decline. You see that with that black bar. You with the teal bar the base scenario of 1.5% compound annual growth. If you think of that as even less or slightly less than the rate of inflation potentially, it's inflationary growth. Our high scenario, which was say is resurgent growth, kind of arrests then curve with you have from FY17, '17, '18, and '19. You see that we've started to move that trend back up with the resurgent growth based on the high scenario.

One final slide, which really gets at the specific values for each of these three scenarios. I won't speak to these just with the exception, again, of reiterating what Victoria said earlier: this is done essentially with data from FY19 Q2, projecting all the way out to FY25. So we're looking at a seven-year horizon here. That's why this needs to be done: course-corrected and fine-tuned on an annual basis.

Thank you. I can take questions if there are any.

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JIMSON OLUFUYE: Not really a question, but just that I really appreciate the data, work, and effort done so far. Great improvement so far. Thank you.

MUKESH CHULANI: Can you say it again towards my boss? No, I'm just kidding. Thank you, Jimson. I most appreciate it.

XAVIER CALVEZ: Just one comment while other questions may be formulated. What you have seen in the number of registries, which is the number of TLD operations, is an assumption that there would be a small decline. Those are the registries that decide to stop operating the TLDs that they have been delegated. What that should mean for all of us is that we are not assuming that there will be new top-level domain names delegated and in contract over the next five-year period as a result of a next round of new gTLDs. This is not because we are trying to project an assumption that is not going to happen, but instead it's simply a conservative approach of not including into our forecast an assumption that there will be such TLDs for cautiousness and so that we don't count on funding that is very speculative from the perspective both of numbers and timing. So the next round will happen in the fashion that the community decided that it needs to happen. We are simply ignoring to be conservative for the purpose of developing our projections. I want to make sure this is clear for everyone.

Why are we developing a scenario that, for example, suggests that the domain name registrations would decline, which some large registries would very much argue with us about? It's not because we're predicting it. It's because we wanted to include in our planning the ability to formulate a worst-case scenario. Yet again, this is only for the purpose of our internal planning of our resources allocation.

So what you will see in the five-year operating plan is that, on the basis of this low scenario, we will have a contingent plan to say, "What are we going to do in the organization if our funding should decrease?" We are not saying we think it's going to decrease. We're saying, "If it would, this is what we're going to do about it so that we reduce accordingly our expenses. That is then purpose of those scenarios: to enable us then to formulate a plan on our activities and in our expenses in correlation. I just wanted to make sure it's clear to everyone who attends. Thank you.

BECKY NASH: Thank you. We had a question that came through the chat that I'm going to read out loud from Phil Buckingham. The question is, "Have models been produced if the 50K limit was lowered? The vast majority of new TLDs have not reached this high threshold."

MUKESH CHULANI: Thank you, Phil, for the question. The current forecast models assume that value to remain as it is. There has been no what-if projection created for the purpose of this funding forecast assumption.

XAVIER CALVEZ: Phil, in case it would be helpful if you would want to do that modeling, the ratio of billable transactions over the total number of transactions is approximately 87% which means that there's about 13% of transactions that are not billable as a result of that threshold. If you want to do the calculation, that's easy. Thank you.

BECKY NASH: Another question? Please go ahead.

UNIDENTIFIED MALE: Yeah. We are planning in five years, and some of the planning is going down. Some of it is in the middle. Some is going up. But it's only in the amount of transactions, not in the variation of the amount. Is there any planning done or is any figure taken in some place that we increase any of the amounts. Instead of the 25 cents, maybe 30? Or instead of the $25,000, $30,000. For some of the registries – you mentioned one – maybe there is not big difference. But ICANN figures it will be a big one.

MUKESH CHULANI: Thank you for the question. Shani, could you go back just a couple of slides? There you go. This one. Again, this is where you would see then net impact of any such changes, but for then purposes of this forecast, they haven't been applied. There's been no application onto the forecast of any change in these current fees. But it wouldn't be so difficult to compute them based on these values.

[DANKO JEVTOVIC]   If I might, it's easier to calculate that in the table, but we are talking about costs for contracted parties that are significant. So I can just say that there hasn't been any discussion at the Board level about that, nor have I personally seen any initiatives. The only thing that was mentioned today was a high-interest topic discussion abuse and that maybe some incentives in one of the ways. But this is something that, for me, is a totally new idea. So there hasn't been any discussion of any changes in the amounts.

XAVIER CALVEZ: To conclude the answer, the pricing structure of the ICANN fees is a community-based discussion anyway. So you will be aware of them because you'll participate in whatever occurs. Therefore, there's no change in the individual unit fees that we've applied for this forecast versus today throughout the five-year period.

BECKY NASH: If there are no more questions, we're going to go ahead with the next section. Shani, please go ahead.

SHANI QUIDWAI: Thank you. Hello, everyone. My name is Shani Quidwai from the ICANN Finance Team. In this section, I'll go over some of the financials regarding the five-year plan. First, just to start off with some of the assumptions that go into the plan, the ICANN organization's activities and projects result directly or indirectly from bylaw requirements and from decisions made by the Board based on community-led policies or

recommendations. In the planning, we do not plan for any work that has not been approved by the Board or speculate on any Board decisions that may be made in the future. We are only planning for Board work that has been approved.

We do however acknowledge that there will be Board decisions taken over the five-year horizon that will change the work that we do. We have set aside contingency funding to ensure that we have expenses available for those projects, but we won't specifically make those kinds of assumptions.

The five-year plan leverages the base case scenario that Mukesh has described. We do have three different funding scenarios. However, we believe that the base case is the most likely or the must conservative estimate.

Within the five-year projections, we do plan an annual contribution into the reserve fund. This aligns with the Board-approved reserve fund replenishment strategy from last year, where ICANN is looking to replenish the reserve fund approximately within eight years.

In addition to that, the head count is expected to remain relatively stable over the next five-year period. We have seen some modest declines in the head count in the last few years, and we expect to remain relatively at a similar number, in the low 400 range.

Lastly, the five-year plan will be a balanced budget where expenses plus the contribution to the reserve fund will not exceed funding.

Here we have a high-level overview of the financials. You can see that we start with the base case funding projections of $141 million and ending with $149.9 million in FY25. This is a 1.5% growth rate.

Next we have the earmark for the reserve fund contribution. The two of these is what gives us ultimately the funding that we have available for expenses for cash and operations.

In the table below, we have a balance of the projected reserve fund balance. If you factor in all of the contributions that we expect to make over the five-year horizon, along with an annual interest rate on the investments in that fund, we do except, by the end of the five-year horizon, to meet the twelve-month amount of $148 million in the reserve fund, which aligns to what our expenses project to be. So this does get us to the target that we were looking for and slightly ahead of the strategy that was approved by the Board.

Two of the key items that are going to be discussed in the operating and financial plan center around functional activities and operating initiatives. Functional activities are essentially what ICANN does and how the activities support the strategic plan. These will be organized by the executives and the functions that support them. There will also be some information around projects and activities associated with those functional activities.

In addition to the functional activities, we have operating initiatives that are derived based on strategic objectives and goals. In the next slide, I'll go through a little more on what those strategic goals and operating initiatives are.

The first strategic objective we have is to strengthen the security of the domain name system and the DNS root server system. The second is to improve the effectiveness of ICANN's multi-stakeholder model of governance. The third is to address geopolitical issues impacting ICANN's mission to ensure a single globally interoperable Internet. The fourth is to evolve the unique identifier systems in coordination and collaboration with relevant parties to continue to serve the needs of the global Internet user base. The last is to ensure ICANN's long-term financial stability.

Within the documents, there will be a lot of text and narrative around these objectives and operating initiatives. These are some of the things that we're looking to get feedback on through our public comment process that I'll take about later.

Next I'll move to the FY21 operating plan and budget. This slide will look really familiar, as I believe Victoria presented this. The key differentiation between the five-year plan and the one-year plan is that the content and all of the details are going to be more detailed for the one-year plan, whereas, on the five-year plan, it's at a much more high level, given how far out we are looking and some of the assumptions and things that go around phasing.

The key point that we want to call out regarding the annual budgeting process is that the timeline is very stable in the sense that it'll be similar to last year. One other key item to note is that the public comment period that will start in mid-December and end in February will be for the one-year plan, as well as the five-year plan. So we did that to synch

is up and hopefully make it easier for the community to have one public comment process for both documents and both plans.

As mentioned, the adoption of the FY21 budget is similar to FY20. This will have a Board approval well in advance of the fiscal year and also provide the Empowered Community the 28-day notice to reject the budget before the fiscal year.

Lastly, the timing of the additional budget request for SOs and ACs is very similar to the prior year. That process will kick off shortly after ICANN 66's submission process. That will end in January and we expect to notify the community in early May when the Board as adopted the budget of all the approvals. There is a slide in the appendix with more specifics on these days.

One of the key changes that we implemented within this document was to improve the structure and the transparency. We've gone from five documents down to four. Another key item that we did is – in the past, we had provided transparency into all projects and initiatives – this year, narrowed the focus to reduce the complexity and really focus on key projects and initiatives. So in last year's budget documents, we discussed roughly 350 projects, over 60 portfolios, and six modules. This year, it'll be around 40 projects and there will be narratives describing functions, projects, and initiatives.

Of the four documents that will be publishing in December, the first is the FY21 operating plan. This will be the longest document. This is a detailed narrative regarding the functions, initiatives, and projects. We will have a high-level overview of the FY21 budget. That will include very

high-level things, like funding and expenses by cost category. If anyone is looking for more detail, we have another budget document that will have detailed funding assumptions around the growth rates, expenses by function, and things like that. Lastly, we will have more of an Excel-type document that has granular details by the initiative and project.

Here we have an overview of the calendar. Victoria had mentioned before that we did already perform one public comment on the five-year plan. As mentioned, the next deliverable is to have posted in mid-December for public comment both the one-year and the five-year plan. Shortly after the holiday break we plan to have a webinar to go through those documents just to clarify any questions and make sure that people properly understand the information before submitting public comments. We will review public comment inputs and develop a report. From there, we will make any changes into the budget that we will present to the Board for adoption with a target of May 2020.

With that, I'll pause to see if there's any questions, or, if not, end it.

JUDITH HELLERSTEIN: Hi. On your first slide, they talked about what where you said the staffing was going to be steady. The question is I know we had Becky and others present something to the At-Large group. We were talking about that on the budget where there was six or some positions that were not filled because they were tied to projects that were delayed or not starting. We also had some discussion about whether there was an idea to have a staffing freeze or a staffing slowdown for the budget. So I just have questions on that.

Then I also had another question. If we know the budget or planning on it, are we going to have a better idea on the envelope for the ABRs earlier in the season, since you have some more ideas on what your forecast is?

Lastly, we went down from 300 projects to 40, and, for the 40, you'll have detailed information about each of those. But are we going to have – I know we put in a public comment on this – any priority listing of those projects to help guide the community to figure out – we may have some other priorities – where they fit in? It's helpful to know where your priorities are of those 40 projects when they're implemented so that we can figure out our own priorities. Thank you.

BECKY NASH: Thank you very much, Judith. I'll start off responding to several of your questions and then we will ask colleagues to join in.

The first question that I head you raise was regarding the fiscal year '19 results. Earlier at ICANN sessions we've been presenting a summary of the actual versus budget for our fiscal year 2019 June 30th-ending results. As part of the actual versus budget, we had a lower headcount than planned in fiscal year '19. That was approximately an average of 32 positions throughout the fiscal year of 2019.

What we've been presenting at many of our sessions is this headcount trending slide, which has an end-of-period headcount where we can see, as Shani had mentioned earlier, that our headcount has remained quite stable, decreasing very slightly. For each budget period we

present headcount for approved work in that budget period. Currently in FY20 we have approximately 410 positions budgeted, and we're expecting stability for head count based on the work that's planned for the next five years. I hope that answers your question there.

The second question that you asked, Judith, was about the envelope for then additional budget request process. When we publish the five-year operating plan and financial plan, the fiscal year '21 operating plan and budget, early or in mid-December, there is a mention there of the ABR envelope that's available for the submissions.

Just a reminder to the community – we will be sending additional notification – we have this additional budget process. It is about to launch on the 11th of November. Submissions are due during the public comment period at the end of January for those requests.

JUDITH HELLERSTEIN: Quick question. So the process is going to launch in November but we won't know until December what the envelope is?

BECKY NASH: That's correct. As part of the draft operating plan and budget, you will see mention of the envelope. In addition, with the ABR process, which is now on this screen, there is a submission date at the end of January. Then there's consultations at the next ICANN meeting, ICANN 67. Then the notification of the SO and AC additional budget requests will take place at the same time or right after the Board adopts the annual operating plan and budget.

Xavier, please go ahead.

XAVIER CALVEZ: Just to complement that answer, it's not a big secret that the envelope will be similar to last year's, if that helps.

Can we come back to the slide on headcount, please? Just to provide context to your comment about the headcount, and for everyone's benefit, when we say that we expect the ICANN headcount to remain stable, two comments about it. Whether it's 395 or 2 or 388 or 410, we consider that stable at the horizon of five years. The "puts and takes" with respect to the individuals we're talking about will be the result of just "daily" activity variations that we say.

For example, those of you who have heard us make presentations across the various SOs and ACs over the past few days have heard that the headcount at the end of FY19 is 23 or so below the position than what was budgeted. This is ongoing management or resources that we do very carefully and that has led us to have less headcount than we were originally budgeting for. Those variations versus plain will always occur.

What you should read in this assumption that we're simply expecting the headcount to remain stable. We're in a stable funding environment. You have seen that the funding is expected to increase by approximately 1.5% per year, which, as you all have noted, of course, is below inflation. Therefore, we will need to continue to look at our cost

base on a continual basis to ensure that we more than offset the impact of inflation through cost savings. That's just going to be the standard.

Another comment also relative to headcount and linking together other comments that have been in the presentation, this is the ICANN operations headcount that we're talking about. If and when there is a next round of the New gTLD Program that is triggered, independent of the size of this program in terms of number of applications, of course we may need extra resources to address the needs of that program at the time it occurs. This is not reflected here because we are not trying to project or speculate as to when the program is going to affect this next five years, nor the extent to which it would. You may know that the past round or the one that's finishing now was self-funded through the applicant fees paid by the applicants. This is also what would occur for the next round as we expect to announce it.

So I just wanted to make sure that everyone understand that this is not yet reflected in those numbers. We have a comment from John. In order, John, Bruce, and Jimson.

JOHN LAPRISE: Thank you. I made this comment during the ALAC session with your team, and I want to make it again here in this venue, and that is, on a personal note, I happen to work for a U.S.- based non-profit. It's a professional membership organization. It has a staff of 300 and we serve 50,000 global members. We have an annual meeting that attracts 50,000 people. The staffing levels that ICANN org has – I understand that, in the past, it has received some criticism from the community. In

my experience, I found nothing out of then ordinary with this level of staffing. I'm completely okay with this level of staffing. I just want to be on the record with that. Thank you.

XAVIER CALVEZ: Thank you, John. I think we have Bruce, Jimson, and then Jonathan.

BRUCE TONKIN: Thanks, Xavier. Just a question. When you're talking about headcount, what is your definition of headcount? Is it a difference between employees and contractors there, or is that headcount collective of both?

XAVIER CALVEZ: No, it's only employees and contracted staff. So it's not contractors or vendors.

BRUCE TONKLIN: So potentially one thing to watch is you might reduce headcount but increase professional services and other things.

XAVIER CALVEZ: This is absolutely a possibility to your point. We have even discussed as part of the five-year operating plan to not spell out headcount over the next five years because, if we would decide to shift some resources, we could very much decide in either direction to hire more people to carry out the set of activities that are currently externalized with potential

benefit impacts on costs or do it the other round, depending upon what makes the most sense for the quality of service and the costs incurred with those services.

So, first, you're right that it's only employees. External contractors or consultants are not included in those numbers. They appear in the professional services part of our spend. We have kept things as is from a forecasting purpose over the next five years relative to the question of outsourcing or insourcing.

BRUCE TONKIN: When you look at both of those lines, what are the trends? It looks like you're trying to reduce or at least cap you, let's call it, employee costs. What's the professional services line doing?

XAVIER CALVEZ: We have not formulated any specific assumptions of shift between headcount and contracts. Therefore, when you look will look at the projections of costs when we produce them in December, you will see a stability trend between those two buckets. So we have not said, "In three years from now we're going to hire 20 people to avoid spending money with consultants." We have left then status quo there, knowing that, one, it's very difficult to speculate as to what we decide in three years relative to that topic. Two, at the level of five years, it would be a trade-off between personnel costs that would either increase or decrease and hopefully a beneficial offset in professional services. Thank you.

MUKESH CHULANI: Jimson and then Jonathan.

JIMSON OLOFUYE: I notice that, from 400, we're going to 40 projects. So the issue is, what happened to the 200 or 360 projects? Or going from 350 to 40 project. What happened? Did they fail or they are completed? It would be good to get some kind of footnotes on them.

XAVIER CALVEZ: Thank you, Jimson. It's a change of approach in what we're presenting, not a description of 310 projects that disappeared. We have been capturing 100% of what ICANN does with a label of projects in the past, including daily recurring activities that are not really projects with a beginning and an end but just ongoing activities. We are suggesting with this new plan to have a better focus on a limited number of projects with more information about those projects as opposed to a very broad set of information about 350 projects, which we have perceived from community feedback were actually not really understood or looked at.

So, what we're trying to do in order to increase transparency, instead of drowning everybody with a lot of numbers, is we are trying to provide a focus on the more important part of the work and the more visible and the more interesting to the community part of our work and to provide that transparency through an increasing amount of narrative about those activities and projects as opposed to providing a lot of

breakdown of numbers but that were not necessarily very well-understood by everyone. So we're hoping that this will improve the transparency about what we do and the understanding of the community of what we do.

Please?

JIMSON OLOFUYE: That is very good. I think we need that clarification because normally, when we talk about projects, it has a beginning and an end. So that's what came to mind.

With regard to the 40 projects now, it needs to have such a kind of framework: "Okay, this is something new that has a beginning and has an end." They will now go into business as usual. So maybe I say now that some of those things were in a way granular projects before. We're now going into business as usual. That is the normal processes of ICANN. Thank you.

XAVIER CALVEZ: Thank you very much, Jimson. This is very good feedback and we'll make sure we'll make that clear at the beginning of then document so that everyone understands what we mean now by "project." We're using the same word with a different meaning going forward, and we need to explain that. Thank you. We'll take that feedback into account. Thank you very much.

I think we have Judith.

JUDITH HELLERSTEIN: Yes.

XAVIER CALVEZ: Sorry. Go ahead. I skipped Jonathan. Sorry, Jonathan.

JUDITH HELLERSTEIN: Going back to Jonathan's question about what is the definition of headcount, I hadn't realized but most of the staff for then Meeting Team who break down and set up all the equipment – although they are the same staff, they're not employees. They're contractors. So are they in the headcount? Are they in the professional services? Because, when Jonathan says you could shift things around then, that's something that is a constant and they're actually the same people. But where would they be? What's a better understanding of that?

XAVIER CALVEZ: Thank you. I think it's Bruce who was asking that question. If you take the example of the contractors that we use, for example, to set up meetings, these are very temporary focused resources. Those are not employees. They are contractors and they are not included in the 400 people or so that we were describing earlier.

Does that help?

JUDITH HELLERSTEIN: Yes. Thanks so much. I just wanted some clarity because I had always thought that they were staffing because they have the same people appear every single time.

XAVIER CALVEZ: Absolutely. What Bruce was alluding to earlier is that some of our work continues daily. Some of our work is very purpose-driven, focused on certain activities, certain parts of the year. Take another illustration of that same conversation: the translators and the interpreters that we use at the ICANN meeting we use many periodically but recurring, but just for the few days of the meetings. So they are contractors and, for the rest of the year, outside of the three ICANN meetings, they have other clients. They are contractors and therefore that's another illustration of people that are not included in the employees because we only use them when we need them.

                        Jonathan?

JONATHAN ROBINSON: I have a separate question, but just to pick up on that thread, I think it is a good point. Even though you rightly point out that Bruce asked it originally, I do think that, for the sake of transparency, to the extent that contractors are quasi-permanent, I take your point on the translators. If a translator is here for the three or four of five, six, seven days of the ICANN meeting three times a year, that's a contractor. But to the extent that contractors are being utilized for a sustained an ongoing period – for example … I can think of one just off then top of my head of

someone who is a de facto employee. Clearly that has issues for tax implications and so on. But I think for the sake of your transparency, it would be useful to highlight any contractors that are, for example, utilized by ICANN for more than three quarters of the year or some thresholding point. So that's just a thought, that you might like to present them separately other than simply professional services.

XAVIER CALVEZ: Thank you, Jonathan, for that suggestion. It's absolutely true that there are some contractors that we use while on different projects on a nearly continuing basis because there are projects coming one after the other and we use those contractors on the basis of their skill and the adequacy of their skills for each project. If we would be able to do produce that type of information, I would expect it would be retrospective basis, meaning historical basis, because, of course, we don't necessarily project which contractors when and if we would actually need contractors. It depends on the workload management over the next few weeks or months that we do that. It's not always projected extremely accurately at all times.

I think we have John next.

JONATHAN ROBINSON: I didn't get to ask the question. Sorry, I just followed on from the previous.

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XAVIER CALVEZ: Sorry.

JONATHAN ROBINSON: I don't want to belabor the point, Xavier, but there is a really valid point here because ICANN could be presenting a very positive figure, saying, "Look how we're managing costs." Of course, in the end, you measured on the round. I accept that and how the overall … But nevertheless, there's a possibility for manipulation of the staffing figures around that. That point somehow needs to [inaudible] in the way that we have been discussing.

XAVIER CALVEZ: Jonathan, we have no need to manipulate the staff figures. No pressure to do it. We're very transparent. We have no problem saying we are hiring or not hiring. So we have no reason to want to manipulate the figures. But I understand your point about transparency. I just mean that there's no intention or need for us to want to do that.

JONATHAN ROBINSON: Nor was I suggesting that you were, but one can see, as you say, from a transparency point of view, how it might appear. That's all. Anyway, let's not belabor it.

My question to you was on the New gTLD Program and the prospect of further rounds and the cost recovery of those. I can see a scenario. I'll be a little hypothetical. The community-led work proposes a launch of a new round with a whole bunch of criteria associated with it, including

a desire to substantially reduce the application fee. Let's just say hypothetically that that fee comes in at $5,000 and you believe there is no way you can process an application for less than $25,000 or some materially different amount. Presumably you would say you would reject that proposal because it wasn't cost-neutral. I just wanted to check where you were at with that from a pure finance point of view.

[DANKO JEVTOVIC]:   Sorry. I'm just dropping in. I didn't want to interrupt your question. I'm just trying to get back to speaking about the org's presentation of the facts and the way how the financial reporting and spending of money is structured. There is the Board's oversight role, then also the Board's Finance Committee that is working with the org and Xavier's team to go into details of all these reports. So we are here as part of the community and the Board. We've been elected and selected to do this work for you, and we are very careful in doing our duties and taking care that everything that is presented is really something that is checked and we are okay with. Sorry to interrupt.

JONATHAN ROBINSON: Danko, thank you very much for highlighting that role and function of the Board Finance Committee. It's important to recognize that, in addition to sessions such as this. So that's useful. Thank you.

XAVIER CALVEZ: Thank you. The Board has the added duty of fiduciary duty of care that makes it even more so present and also useful for the org to receive.

Relative to your theoretical scenario, if I may introduce – I know all of you can help with that conversation – the notion of policy versus implementation. The policy that is considered by the SubPro Working Group is cost recovery. This was also the policy for the previous round. Of course, this is not finalized but I understand that the current position of this working group is to maintain this principal, this policy, of cost recovery. While the group may also desire that the cost resulting from that policy is different and lower than it was eight years ago, it may simply not be the case. So the implementation of the policy of cost recovery would be an exercise by the org to evaluate the potential costs of the program and therefore develop a fee structure that would offset those projected costs of the program. It will result in what it will result in, despite the desires of everyone else. Therefore, we will carry out that exercise, of course, in fully transparency with the community so that our assumptions can be fully considered and discussed and validated with the community so that the fee results in effectively implementing that policy of cost recovery, which is very logical for everyone who didn't participate with ICANN as a non-profit. This is a very one-time exercise. Any amount of expenses driven by the program that would not be covered by fees would be taken out of the ongoing activities that the organization carries out to deliver on its mission, which therefore its impact to deliver its mission.

So that's why the previous PDP in the AGB had suggested that it should be cost-neutral, effectively, on the basis of a fee that recovers the cost that ICANN would incur, which is what has been established. I understand that that's also the principle that the SubPro Working

Group is looking at now. So we would effectively I don't think necessarily be in the situation that Jonathan was describing, simply because we would discuss with the community what the potential costs of the program are and therefore how the fee has been determined to cover that. Risks come into the picture. Also probably the fact that, if the PDP suggests that it should be continuous rounds of application window, then we would need to structure our ability to carry out those continuous rounds and not just one round. So that could also have implications, among many other things, on the activities being planned for, and therefore the fee to recover in the costs of those activities. I hope that helps. Thank you.

BECKY NASH: Thank you, everyone. The session is about to close and we're just running up towards the end at 3:00. I wasn't sure if there was anybody else in then queue at this time, but we're going to stop the queue.

Okay, great. Thank you very much, everyone. We did include some additional slides just about engagement at ICANN. Just a reminder, the public comment period will start mid-December, and we look forward to engagement with everyone. We want to thank everyone here and online for joining and asking the questions that you did. So thank you very much.

UNIDENTIFIED MALE: You, too.

XAVIER CALVEZ: Thank you. There's a question in the chat that we didn't answer from Phil Buckingham. Phil, we will answer your question separately that you've put in the chat. Thank you.

[END OF TRANSCRIPTION]