ICANN77 | Prep Week – Planning and Finance Update
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MARGARET BENAVIDES: Thank you. Hello, and welcome to the ICAN77 Prep week, planning and finance update. My name is Margaret Benavides, and I am the remote participation manager for this session. Please note that this session is being recorded and is governed by the ICANN expected standards of behavior. During this session, questions or comments will only be read out loud if typed in the Q&A feature. I will read questions and comments out loud at the section breaks. Interpretation for this session will include English, French, Spanish, Chinese, Arabic, Russian, and Portuguese.

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model, we ask that you sign into zoom sessions using your full name. For example, a first name and last name or surname. You will be removed from the session if you do not sign in using your full name. I will now hand over the session to my colleague, Becky Nash. Thank you.

BECKY NASH: Thank you very much, Margaret. I just want to welcome everyone to this webinar and note that we have several speakers today from both the org planning team and the finance team and our team members are listed here on the slide. And I also would like to thank those board members that are in attendance, thank you very much for attending this planning and finance webinar.

So, if we could go to the next slide, we have quite a few topics today from the finance and planning updates. So, we're going to start today with a FY23 or fiscal year 23 financial update. So, this will provide a view of our finances for this current fiscal year that will end June 30th 2023. We then will give an overview of the adopted FY24 through 28 operating and financial plan and the one-year FY24 operating plan and budget. We will then give an update on the next fiscal year that we're planning for, which is fiscal year 25. So, we will have an overview of the planning processes that have kicked off, including the strategic outlook program and the planning prioritization process.

We then have a planning process improvement update, and a final topic on the agenda today will be an overview of ICANN's economist function. We then have time allotted for Q&A, but as indicated upfront, we will take questions throughout the presentation should you raise your hand or put a question in the Q&A pod menu. And with that, I will hand it over to my colleague, Shani Quidwai. Thank you.

SHANI QUIDWAI: Thank you, Becky, and hello everyone. The first section of this presentation I'll provide an overview of ICANN's year to date financials. And before we go through those, I just wanted to bring visibility to the page that's linked on this slide. ICANN publishes our financials on a quarterly basis, 45 days after the quarter ends. So, the most recent publication was posted on May 15th for the quarter ending on March 30th. So, you can see on this page here that we have our quarterly postings as well as some of the budget and operating plan documents that we'll discuss further on this call.

In addition to the items highlighted on this page, some of our other key postings relating to financials are here. Our audited financial statements, our tax filings, investment policies and several other documents. So, I highly encourage people to view this page and go through these documents at your own time.

Here, we have an overview of our year to date financials, and so these financials represent a time frame July 2022 through March 2023. This is 9 out of the 12 months of our fiscal year. This is a cash flow statement that's organized by the various funds that ICANN has available and you can see the first being ICANN operations. ICANN operations includes the PTI and IANA functions, and this is where all of the core day to day activity of the organization happens. This is where the funding that we collect from on a quarterly basis goes into and all of our day to day expenses are in here. To the right of this, you can see some of the various distinct segments or programs that have separate funding sources, and I'll walk through the those in more detail.

Starting with the ICANN operations, we started the year with $62.8 million and we currently have 55.3 million at the end of the quarter. You can see all of the various lines here. We've had funding collected of $113.5 million and then below that, we have the various expenses ultimately resulting in a cash excess where we've collected more cash than we've taken in so far in the fiscal year. Next, below that, we have transfer of $19 million to the reserve fund, and this was a board approved decision earlier in the fiscal year. And then lastly, we do have investment income as all of our funds are invested per the ICANN investment policies.

Next, we have the new gTLD program, and we've broken this out into two different rounds. So, the first column are the costs associated with 2012 round. There still are costs ongoing that ICANN is incurring to process those remaining applications and you can see those here. The next column are the costs for the next round and so this largely represents costs that the organization has incurred to do the ODP work and starting to work on implementation work with recently approved funding at the last ICANN meeting.

Next, we have SFICR projects, and that stands for the supplemental fund for implementation of community recommendation and there have been two board approved projects to use this funding. The first was the prioritize review recommendations and more recently, the registration data request service. Next here, we have the grant program. These are the auction proceeds that were collected from 2012, new gTLD round and we have started to incur some expenses to implement and get this program underway. We have a slide later that goes into more depth as to what the costs are on the grand program.

Lastly, here we have the reserve fund and there has been no expenditures here. The reserve fund is more of a last mechanism and not something that the org typically uses. Overall, the balance has increased $143 million at the beginning of the year to $167 million, and you can see in the in the middle of the page that the two drivers in the change in balance are the board approved transfer as well as investment income or market gains.

The last item to highlight here is that we do have the staffing levels for the organization listed. In total, we have 423 staff members at this time and you can see how they're dispersed amongst these various segments, starting with ICANN operations at 399 and so forth to the right.

Here is just some more detail on the ICANN operational expenses. Funding has been nearly aligned to the budget at 113 million as well as identical essentially to the prior year. The expenses of $105 million these have grown compared to the prior year and a key reason they have grown as in the prior year, there were travel restrictions for nearly the entire year and the travel restrictions were lifted at the beginning of this fiscal year, therefore, that has added to the cost most specifically due to the fact that we've had two public ICANN meetings this year and we did not have any at this point in the prior year.

From a budget perspective, the costs are slightly lower than what we had projected and there are some more details in the later slides that will go through that. The excess so far this year is $9 million and that represents having higher funding than expenses, and you can see that part of that was planned in the sense that the budget assumed we would have an excess of $3 million at this point, and it has been slightly higher due to lower cost.

Here are just more details around ICANN's funding, and you can see we have three different columns. The first being the actual for this current year, the next being the budget, and then the last in gray being the same amount, actual amount for the prior year. The ICANN funding is broken into these various components, the registry transaction fees, transaction fees from registrars for domain name registrations, fixed fees that are received for each TLD, registrar fees that are received for each register our accreditation and then we do have some other funding off to the right that includes contributions from ccTLD operators. Overall, you can see that most of these are all relatively flat to the prior year and aligned with the budget. The overall accuracy of the budget has been very high so far.

Here are some more details around the costs and as noted before, they're slightly lower than the budget and higher than the prior year. You can see that the personnel costs which includes all of the staff related costs including things such as benefits, pension and compensation, those are slightly lower than the budget. They're $60 million compared to a budget 64 million and have slightly increased from the prior year due to inflationary increases as well as more staff.

The most notable difference we have here when comparing costs against budget are the professional services. Which have come in at 18 million compared to the budget of 23 million. And professional services are external cost that ICANN incur and include a variety of things such as cost associated with meetings, translation services, and so forth. Those are down primarily due to the fact of timing from some certain projects as well as the fact that this line item in here includes a contingency budget for unplanned expenses and those have come in lower than our expectations.

Next, we have some detail on the new gTLD 2012 round expenses. Over the first 9 months of this year the costs were $4 million and those are broken out in the various slices that we have on this chart. Nearly identical one third, 35% of the staff cost or the staff cost for ICANN org's staff to evaluate and work on these applications. 26% of the cost are program administration cost, things such as the trademark clearing house system and registry testing fees. And then lastly, we do have 39% of the costs which are contingency or risk costs for hard to predict and unforeseen costs.

Here we have some visibility into the cost for the next round of new gTLDs and this specific table is included in we have more comprehensive reporting about the next round that includes a lot more operational detail as well as this financial information, but you can see here that the costs for the ODP ran from January through December

2022. Those cost totaled $6.8 million and are summarized by the various work tracks within the org and how we structure the work.

Next, you can see in the column here from January through March, these are the costs that the org continues to incur to start the implementation work and engage and inform the board and community on the work of the ODP from the January through March time frame. Those total $2.5 million. On average, we've had the equivalent of 15.9 staff and contractors working on this program, and the costs so far have been 9.8 million.

The last slide here on the year to date financials is the grant program. You can see that these are the costs are very low at this point. These are purely the cost to develop and implement the program. So far the costs have been $326 thousand. We have the equivalent of one and half-staff working on this program. Some of the costs in here include onetime app implementation costs such as developing the grand program department, the applicant help desk, the program website, the literature documentation and all of the processes that will go around for this program. So, thank you. I think I'll pause at this point.

BECKY NASH: Thank you, Shani. Just before we continue on with the adopted 5-year and 1-year plan. We wanted to make sure there weren't any questions on the floor. So, if you have any questions, please feel free to raise your hand and unmute your microphone. Thank you. Okay, Victoria. I thank you for your help. Thanks.

VICTORIA YANG: Great. Thank you very much, Shani and Margaret. Hello, everyone. This is Victoria speaking for the record. In this next session, I will team up again with Shani and together, we will briefly introduce to you the fiscal year 24 plan, which was adopted by the board in April. So, on these slides, this is ICANN's planning process at a high level. Each year, we start our planning process with the strategic outlook program, which is the program to give the ICANN ecosystem the opportunity to identify and discuss any trends that may impact ICANN and the current strategic plan.

With that, we then move to the operating planning process. This is the process where we determine if there's any key initiatives to achieve the strategic plan. The operating plan also include what each function within the ICANN organization plan to do to achieve the strategic plan. Once all activities are planned, we then allocate resources and that's the budgeting process. And, finally, there is progress measurement. Currently, there are several mechanisms we use to report out on progress. We have the annual report. We also have the CEO report. Planning king is working on identifying the gaps to further complement this area of work.

On this next slide, we summarize the by-law requirement of the deliverables related to planning. As you can see on this slide, the ICANN bylaw require ICANN to develop and publish a strategic plan every five years. And we also have the PTI by-law requires the PTI to have a 4-year strategic plan. In addition, the ICANN bylaw also require a 5-year operating plan, and each year, we also need to produce annual operating plan and budget for ICANN, IANA, and PTI. So, this is a brief overview of the deliverables that related to planning that we produce on the yearly base.

So, in April, the ICANN board adopted the fiscal year 24 plan, which includes the 5-year operating plan, 1-year operating plan and budget. These plans are now going through the entire community period. All these plans are published on the website, my team will put in the link in the chat if you are interested to review and even download a copy for your reference.

For those who are interested to view activities, we plan for fiscal year 24, we just want to summarize on these slides. The operating plan is to basically explain what are the activities planned in fiscal year 24 as well as for the 5 year. You will realize that there are two major elements in the operating plan. One is the functional activity, which we have 33 function within org. So, each of the functional activities describe the activities that we planned for the coming fiscal year as well as for the next 5 years at a high level.

The other key element in operating plan is operating initiatives, which are the key work that's identified to achieve the strategic plan besides the functional activity. So, each of this initiative has different level of details, depends if it's a 5-year plan or 1-year plan. With that, I'm going to pass it back to Shani to present you the 5-year financials and the 1-year budget for fiscal year 24.

SHANI QUIDWAI: Thank you, Victoria. So, here on this page, we have an overview of the 1-year financial projections. The top line here is the funding and in the documents that we've published, there's much more content around the funding. Our approach to projecting the funding is that we look at a few different scenarios realizing that there are multiple things that could occur that would impact funding over a time frame this long. We have a high scenario where the funding growth is higher, we have a base scenario and a low scenario where the growth is lower and impacted by things in the market and so forth.

All of the plans leverage the base scenario because in the base scenario, we believe that's the most achievable and most realistic case of the funding. However, we do acknowledge that it could end up being higher or lower. You can see here that the funding for the 5 years is very steady and growing at a slow pace. This aligns to how our funding has been growing over the last five years or so where we have had average growth of 1-2 %.

Next, below that, you can see the various cost items that are projected and the key thing here that I would point out is that we have a balanced budget. This is our approach to budgeting where we do not spend or project to spend more than our funding. So, for each year, the expenses align exactly to what our funding is and therefore you can see the excess 0 every year. Overall, the staffing levels within the operations are projected to be flat over this time frame. However, overall, resourcing for the organization has increased and will increase, and I'll go into more details about that as it relates to specific programs that are not part of the operations that things such as the grand program in the next round.

Here is an overview of the budget in a similar view that we looked at before, starting with the operating fund, you can see that we project to start the year with $44 million and end the year with $45 million. That slight increase is due to the fact that there is some investment income but as previously noted, we have a balanced budget where the funding is equal to the expenses. For the new gTLD fund, here you can see that we project to start the year at $57 million with $9 million of expenditures and ending the year at 48 million.

Next, we have the supplemental fund for implementation of community recommendations. This is projected to start the year at 18 million and end the year at 12 million as we project to incur costs for the registration data request service as well as the prioritized review implementation work.

Next here we have the auction proceeds and this is where the grand program costs will come out off. We project $4 million at the costs and ending the year at 208 million. We don't have displayed here an expected grant distribution amount that those amounts are still being defined and developed as we implement the program and there is a specific session during the prep week about the grant program where more details on this will be provided.

Lastly, we have the reserve fund and there is no projected cost as this is not something we plan to use, and we do have a market gains that align to some historical trends here. This overview is the ICANN staffing for

FTE, which stands for full time equivalent, and what you can really see here on this chart is the left side or up to the middle, this 5-year time frame the staffing for ICANN was very stable and not growing.

However, this current year and next year we are projecting and have seen growth in the staffing to really accommodate all of the new work that is coming to ICANN's way and you can see in the various colors here the programs that are defining that, but, ultimately, you see the grand program getting to a staffing level of 5, as well as in orange, the various staffing figures associated with the SFICR projects, and then in the light blue, we have the new gTLD next round. Overall, those are the key drivers as to why the staffing of the org is increasing and projected to reach 440 next year.

Here we have an overview of the operations budget against the forecast. Starting with the first line, we do have slight decline projected in funding. This is due to projected economic challenges within the global economy and as noted before, this is our base case scenario. We do have a scenario that's higher which could result in higher funding and also a lower, but we believe this is the most reasonable from a planning perspective.

As you look at the various costs highlighted here below, our costs are projected to increase 2% and the biggest driver and the increasing cost relates to personnel, and this is due to the fact that we have a growth of 3% in staffing as well as inflationary increases for existing staff members.

Here is an overview of the new gTLD program. And there are a lot of numbers here. So, I'll try to simplify this. This is an initiative that was launched in 2012. So, you can see the columns represent the various years and the costs that were associated with the program. In total, we have collected $360 million in application fees and refunded $52 million in the application fees. So, the net funding or net revenue is $308 million. Through FY21, we had incurred costs of $188 million of operating expenses and 62 million of non-operating expenses. At that point in time, the remaining funds were $67 million.

In the columns to the right, you can see what our actual costs were for the last year and the projected ones for the current year as well as the next year. Overall, based on these projections here, you can see that we project at the end of FY25 to have approximately $46 million in remaining funds from these application fees. However, in addition to using these funds for the 2012 round they are also being used to develop and implement the next round of new gTLDs.

And here is a little bit more visibility into the next round of new gTLD's and those costs. We did complete the ODP and publish the ODA in December. In April 2023, the board approved funding of up to $9 million for the org to start the implementation work, and these costs are projected to go through October 2023 at which we will request further funding to continue the work needed to implement and get the next round up and running. So, thank you. That concludes the budget portion of the presentation and now we'll move into the FY25 planning process.

MARGARET BENAVIDES: Thank you, Shani, and thank you Victoria for the presentation. Before I begin, I just want to make sure there aren't any questions. Okay. So, hello, everyone. Again, for the record, my name is Margaret Benavides, and I am with the ICANN planning team. So, I'll be providing a quick update on the FY25 planning process. So, the FY25 planning process is underway. This timeline shows the standard annual cycle, which starts at the beginning of a new calendar year.

We started off this year by kicking off with the strategic outlook program, and we held phase one, which is the trend identification sessions in the early spring time frame. We are now working on phase 2 of that program, which is the data analysis and validation of the trends through the org subject matter experts. Additionally, we have kicked off the community led FY25 planning prioritization process, which will serve as input into the FY25 draft operating plans.

Next slide, please. To provide some context, we held 12 strategic outlook sessions this year and engaged with over 200 participants and collected over 1000 data elements. We'd really appreciate everyone's participation and collaboration in this process and look forward to sharing the output of this.

Next slide, please. So, a little bit about the planning prioritization process. And thank you, Irina, for your comment. We will share that in a moment. We are actually working on the collection of those trend identification sessions, and we'll be actually sharing that later on. So, it's not prepared to share at this point, but we are working on that right now, to have that verification process with the subject matter experts in the org. So, going back to the planning prioritization framework, the planning prioritization process has actually happened 3 times. This is the third iteration of this process, we held a pilot session in the spring of 2022 as well as an iteration for the FY24 in the fall of 2022 and we are now holding the FY25 planning prioritization process prior to the development of the FY25 draft plans by org. The most latest framework, which helps guide the process, is published on the finance and planning community wiki, and I will share that link in the chat.

Next slide, please. So, to share more, below, you see the members and secondary members who were nominated by the SO/AC leadership teams. We truly appreciate both the veterans and new members and alternate members of this process. The output of the FY25 Planning prioritization group is anticipated to be shared in July of 2023 prior to development of the draft FY25 plans. So, I will now pass the microphone to my colleague Victoria, who will walk you through the planning process, improvement section. Thank you.

VICTORIA YANG: Perfect. Thank you so much, Margaret. All right. So, in this next session, I want to introduce to you a project that we currently are working on. So, as introduced in the earlier slides where I provided a summary of all the deliverables required by the bylaw, so, you will see that here again, there are many deliverables required by both the ICANN and the PTI bylaw related to planning.

Moreover, some of the requirements also touch up on process including the timing. For example, the ICANN bylaw require a 5-year strategic plan, whereas the PTI bylaw require a 4-year plan. The PTI bylaw also require a draft annual operating plan and budget 9 months prior of the fiscal years. As such, we always start the planning process for PTI and IANA earlier than the ICANN annual planning process. Yet, all these plans are related.

So, to improve the overall planning process and reduce complexities and hopefully, it will make it easier for the community since all this plan are related, it's just easier to see the relationship when you put things in context. So, the planning team is proposing some recommendations to improve the overall ICANN planning process. Some of these recommendations requires a bylaw change after extensive discussion with the PTI board, the ICANN board of governance committee and the PTI board passed a resolution, initiate a bylaw amendment.

So, on May 16, a public comment proceeding was launched. Last week, the planning team in collaboration with other cross functional teams within the ICANN organization hosted a webinar about this public comment proceeding. During that webinar, we explained the background and then explained in detail the proposed recommendation, which touch up on some bylaw amendment. This presentation and the recording are published on the public comment page for your reference.

So, here we are in this webinar we want to encourage the community to visit the public comment page and review the proposed recommendation. We do hope this recommendation we'll streamline, simplify the overall planning process and make it easier, or less complicated for the community to participate in the overall planning process. So, with that, we will post the link in the chat and if there is no question, I will pass the presentation to my colleague Roberto to talk about his function.

ROBERTO PENA: Hello, everyone. My name is Roberto Pena. I'm the new economist at ICANN, and I'll be providing an overview of this new economist function. But before I begin, I did want to tell you a little bit about my professional background and experience. I began my career working in the United States congress. I've worked as an international trade and economic adviser to the European Commission and most recently before joining ICANN, I was working in finance within the asset management industry.

So, let me kick off the overview now of the new function. So, this is a new function. I was brought on last year in February of 2022, and so, the idea is really to contribute to the strategic planning activities at ICANN and providing analysis on economic trends. And so, another goal is to serve as a subject matter expert and adviser on macroeconomic analysis. Also, to provide advisory and programmatic support to the organization through research and analysis, utilizing both market and economic data.

Here, I wanted to illustrate some of the overarching responsibilities and have broken them out into three key areas, starting with the advisory and programmatic support, again, working with the different functions at ICANN, but also another area that's important to the role is the research and analysis function as well as planned economist outreach and engagement. And I'll touch upon each of these in the next slide.

So, here, I wanted to illustrate how the economist function would work and the ideas to work across the various teams at ICANN. And so here, I am sharing some of the dedicated functions at ICANN. So the goal would be to work across these different divisions and help support ongoing projects and trying to leverage macroeconomic and industry data.

Next slide, please. Here is an example of how this collaboration works and in practice. Shani just gave an overview of some of the financial forecasts over the coming years and so, again, those forecasts are developed jointly with between the finance team and global domains and strategy, but in terms of the economist's contribution to that process comes in earlier at the earlier stages in really providing industry and macroeconomic context.

And this would come from evaluating economic trends and industry developments that are likely to have a significant impact on both supply side and demand side conditions. And this would be based on things like global macroeconomic forecasts and commentary from sources such as the international monetary fund and the economist intelligence unit, but also, in discussions with third party consultant conducting not for attribution interviews on the DNS marketplace.

So, again, bringing forward these ideas to both global domains and strategy and the finance teams to really provide some context that helps formulate the eventual forecast. Here's a quick glimpse at the research and analysis activities. And again, this would be done with information obtained both within ICANN, but also from external sources. So, looking at ICANN, there have been a number of studies that that have been done by the organization.

I do want to plug the office of the chief technology officer who has an excellent research capacity and has published several reports. And so there's been a lot of scholarship that has been done within ICANN, but ICANN as also commissioned many studies with third parties. So, there's certainly a wealth of information that we can draw from these studies. ICANN also has the open data platform with a lot of key performance indicators.

Pointing now to the external sources, this could come anywhere from industry reports, public company financials. Obviously, company executives are very close to the to market and are looking at the global economy. So, interesting to get their feedback as they present their companies. Also, from Think tank and Civil Society studies as well as government and international organization studies.

The third area I wanted to flag is the planned economist outreach and engagement. This would be done in collaboration with other ICANN functions, but we envision potential outreach with community stakeholders both industry and civil society. We also see scope for conducting dedicated outreach with Think tanks and university scholars following internet policy, as well as international organizations like the World Bank for complimentary research on ICANN's mission. And with that I'm up to Q&A.

VICTORIA YANG: Thank you so much, Roberto. So, we actually have concluded the presentations, want to make sure that everyone has the opportunity to ask any additional questions or make any additional comments. So, if you do have a question, please feel free to raise your hand in Zoom if you would like to ask a question, and our team will manage the queue and will call on participants in the order they are queued up. So, please feel free to unmute your microphone and ask your question and make sure you mute when you're not speaking. And please state your name for the record you can also ask your question or make comments via the Q&A pod. And please, feel free to do so now. Thank you so much.

PAUL GUEVARRA: While anyone is thinking about any questions, just wanted to offer the next webinar on the grand program that will happen tomorrow at 08:30 or 2030 UTC, so end of the day in Europe and Africa and that middle of the day, in the specific time zone. And there will be an update there on the grand program implementation work. So, if you're interested on that topic, please do not hesitate to either participate live to the webinar or to look at its recording afterwards. The direct information to participate is available on the ICANN prep week before ICANN77 in all the web page on our website. Thank you.

BECKY NASH: Well, I think we are completed then and want to thank everyone for your participation in this webinar, and we look forward to seeing you at the meeting in further sessions. Take care now.

MARGARET BENAVIDES: Thank you very much, everyone, for joining.

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