LONDON – ICANN Finance Open Session
Thursday, June 26, 2014 – 09:00 to 10:30
ICANN – London, England

UNIDENTIFIED MALE: Good morning. This is ICANN Finance Open Session from 9:00 to 10:30 local time in Thames Suite.

XAVIER CALVEZ: Good morning, everyone. We're going to wait another couple minutes for potentially more people to come. There was a session before us and we're getting settled into the room. Let's wait another couple of minutes. Thank you.

Okay, we're going to start. Good morning, or good evening, or good night, dependent upon where you are. We have a number of people on remote participation, so welcome to everyone. Thank you for participating. The BFC (Board Finance Committee) members send their apologies. They had intended to come, but they have been retained in a Board meeting that extended beyond original plans. But they did want to participate and I thought it was important for you to know it.

This is our usual Finance public session at ICANN meetings. I'll go directly into the agenda. We're going to look at three years. We're going to start by having a look at FY14. FY14 is closing in a few days and we have produced a forecast. We will look at this forecast and notably on expenses first. Then, we'll have a quick overview of the budget draft as it relates to where we are now in this process with the public comment period that is finishing on July 1st. Then, we'll talk a bit about the FY16 planning process that we need to plan for in the next few weeks.

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

FY14. I guess I'm too far from the – thank you. We'll give you a certain amount of highlights of FY14. Then, we'll look at more specific variances in the highlights. Our overall change in net assets is excess of $5 million for the year, compared to what was expected to be in excess of $7 million, so it's slightly below and we'll look at why.

The revenues are a bit below budget, largely driven by the timing of the revenues coming from the new registries being plugged into the root, because that timing started later than what was originally budgeted. The headcount is slightly below budget. We will look at that, as well. There's a number of other expenses which we'll look at the variances of, as well.

Before I continue, I should have [inaudible] the numbers that we are going to show are based upon a forecast that we have produced using ten months of actual data, from July through April and adding to it two months of estimated data for May and June. Of course, you realize we're very close to the end of June. We close the financials of ICANN monthly. We've used the financials closed at the end of April that were available towards mid-May. Since mid-May, we've worked on pulling together this forecast. That's the data that you will see here. That's what we've been using for it. At this stage, we're expecting to be relatively close, pending the variances that we can expect at year-end.

As you know, we have a contingency in the budget. The contingency is simply a portion of the overall spend of the organization that is not allocated to any specific area and is simply helping to cover for expenses that are not necessarily planned for at the beginning of the year or at the time the budget is finalized, which is the natural life of any budget

or forecast. Always the same thing. As I like to say, the budget is obsolete the day after it's been approved, because things change all the time.

Three activities have been particularly applied against the contingency that were not originally planned at the beginning of the year. Some are research-related activities. You may remember the e-friction report from the BCG that's been produced. That is an example in this area. Technical support for the community in the form of the IETF sponsorship for the IETF that was in London, I think in this hotel. Internet governance-related activities that you all [know], are aware of 1Net, the NETmundial meeting and sponsorship of the IGF in Bali earlier in the fiscal year. From memory, it was in October.

If you remember the strategy panels were budgeted for, because we knew them. That was a relatively late addition in the development of the budget for FY14, but we knew about them from memory in May or June. We had budgeted for the strategy panels. When the Internet governance-related activities were becoming visible, if you remember, it has been decided to reduce the scope of the panels, especially reduce the duration of those panels to have them finish their work towards January rather than June in order to be able to redirect resources towards the Internet governance-related activities that were then visible. That decision was made in the November timeframe, from memory. We will see the impact of those two sets of activities. One reducing the panel's scope, two the activities applied against the contingency.

The New gTLD Program. The new gTLD forecast has been extended by two years to reflect the visible or foreseeable timing of contracting and delegation. You may have participated to the New gTLD Program update earlier this week, in which it was indicated that there's right now slow work contracting then what was originally necessarily planned.

There's been, from memory, about 600 applicants offered to contract and right now, there's I think approximately 450 that have contracted. We're basically waiting for a number of applicants to come to contracting. Basically, the rhythm originally planned in the program two years ago happens to be relatively slower in cooing to contracting.

Then, the delegation. The delegation takes usually between a week to three weeks, once the contracting and the pre-delegation testing has been completed. As a result, on the basis of that, it is expected that the contracting will go until sometime in our fiscal year 2017, which was not originally planned in the program.

This is a bit of specific information relative to a number of projects. We wanted to make sure we provide maybe more granular information than you may be used to. But for purpose of transparency, we wanted to make sure that everyone understands how the funds of the organization have been used. Notably, for those activities that were not budgeted for at the beginning of the year.

I mentioned research, technical support, and Internet governance. You see here those three categories represented. The e-friction report from the BCG at the top, as well as the communication plan that resulted from it are indicated here. Below, you have the IETF sponsorship and the services that ICANN provided in kind, like video support and some

translation during the IETF are also indicated here. That was the IETF in London. I can't remember the date but you guys may know better than me.

The Internet governance activities are of four types. We've tried to have a logical categorizations of those costs, but sometimes we had to make some estimates and some shortcuts. The U.S.G. transition support earlier in the year has triggered some legal fees. We've also categorized those in this bucket. But the main components are the one that activities. We've broken down the one that costs by the various types of services that were included in there.

The NETmundial's ICANN costs. As you know, along with the government of Brazil, ICANN has supported and helped with the organization of the meeting and contributed to a number of costs. Notably, the larger part of it is the support to the travelers, to a number of travelers. From memory, 180 travelers have been supported to go to the meeting in Brazil. ICANN has supported this. A number of meetings and caterings, costs that are shared with the government of Brazil. The Board and the staff, traveling costs, interpretation, and a number of consulting and contribution costs, as well.

The Bali IGF sponsorship appears here, as well. The 1Net costs as well. A lot of communications costs, as well as a number of meetings that some of you either know or may have participated, too, in London and in Paris, sometimes in coordination with the high-level panel earlier in this year, from memory, in December, there was a meeting.

These costs aggregated that we had intended, when they appeared, to be covered through the unallocated resources in the budget through

the contingency add up to $5 million. The contingency was designed to be $3.7 million, and therefore, if we compare those costs against the contingency, they exceed it by $1.3 million.

As I indicated earlier, because we knew that the Internet governance-related activities would be – sorry, we're both moving slides. I'm going. Because we knew the extent – well, we knew. We had an idea of the extent of the Internet governance-related activities and research and so on. The decision had been made early on to reduce the scope of the strategy panel to be able to reallocate resources from the strategy panel to the unplanned activities.

Let me back up one second. This is giving you a new view of the exceptional items. In the budget for FY14, there were two exceptional items that had been identified. One, the strategy panels. Two, the ATLAS II meeting and the ATLAS II meeting that has been happening in London. Why exceptional? Because the ATLAS II meeting has happened the last time five years ago. It's a relatively large and significant meeting, of course, and very important one for the At-Large Organization, with a relatively significant cost, as well. It had been identified as an exceptional item, as well as the strategy panels.

The budget for those two items was, in our FY14 budget, $3.9 million. The expenses resulting from those two items effectively are going to be approximately $2.2 million. By design, ATLAS has basically cost what was budgeted for, so the team has done a good job at organizing it at the cost that was budgeted for. But the strategy panel's budget was $3.2 million originally and $1.5 million has been spent, leaving resources

to more than offset, really, at the end of the day, the excess that we saw on the previous slide of usage of the contingency.

Basically, we're more or less balanced between the unplanned activities and those planned activities that we were able to reallocate the resources of.

Moving on, this is an overview of the personnel costs. We thought it was useful to provide numbers and facts as there's been a lot of thoughts or talks about the fact that the headcount of the organization has increased a lot. This is true. Just for the sake of transparency, we wanted to make sure that everyone understands where we're at. We are expecting to be, by the end of June, on the basis of the forecast, at 267 people in the organization for the operations, which is 10 people below the budget at the end of June. We're slightly below plan on that. Not above. The New gTLD Program itself is also slightly below budget at 24 people versus the 29 that were planned then, and a correlatively lower spend.

UNIDENTIFIED MALE: Sorry, Xavier. Are the 24 included in the 267?

XAVIER CALVEZ: No. They're additive. Thank you for that comment. What we are calling here and we've shortened it, what we're calling here OPS stands for operations, of course. We're distinguishing the operations from the New gTLD Program.

New gTLD Program in the way we're showing this corresponds to the evaluation program. The resources that contribute to the evaluation program. Once an applicant who has signed the contract and has received the string delegation, that becomes a contracted party and becomes and OPS subject.

As you may remember, we have consistently, since the beginning of the program, kept very separate the funds, the accounting, the reporting of that information, for those of you who are interested and have not yet seen it, our audited financial statements provided in their note three a breakdown of the financials of ICANN, both from a statement of operation, meaning P&L, for those who know that word better. Or a statement of position, otherwise known as balance sheet in other places.

Both types of statements, as well as our cash flow, are broken down between what we call operations versus the New gTLD Program. As you know, the financial impacts of the New gTLD Program are so significant and so different than the operations that we felt it was one, for transparency and understanding better. Of course, it helps also keeping very separate the two, because we're just the custodians of the applicants' fees, on their behalf, really.

That's headcount. A bit below budget for FY14.

The expenses of ICANN in aggregate. If you look back at our budget for FY14, there were budgeted to be $92 million. We are expecting to be basically around that level at the end of June. Showing, basically, a variance of zero. But, of course, there are puts and takes. There are some things that came above and some things that came below.

This is a list of the largest variances between budget. You will see that at the bottom of this slide, if you can – really at the bottom –there's those remainder areas that we've aggregated together than have relatively little variances and that net out to a insignificant amount. The variances, the lines in this slide show you the forecasted amount of spend, the budgeted amount of spend, and therefore the variance between actual and budget for those areas. Providing a little bit of comments as to what has driven those variances.

The Global Domains Division (GDD), this is the area of the organization where once an applicant has contracted and delegated becomes a contracted party. This is the area of the organization that specifically supports it. It's Cyrus Namazi's team, the DNS Services. It's Christine Willett's team for the portion that corresponds to the operation, not the portion of Christine's team that deals with the New gTLD Program. It is also the online community services that Chris Gift manages and so on.

That group lower spend also because, as we have just talked about, the delegation has been slower. This organization has been slower at a ramping up, as well. Honestly both by design and by consequence, because there was not yet as much volume of work due to the slowest ramp-up of the number of registries.

The GSC group is a bit below budget, as well. Slower hiring or lower hiring. There's just a certain number of timing of hirings, as well as less travel of this group than originally planned.

Constituent Travel is relatively significantly above budget, largely for a bit more travelers than originally planned, as well an average cost per

travel that exceeded our budget estimates. This is an area, from a financial planning standpoint, that's a bit challenging to predict.

Even though we have a certain amount of understanding of the destinations, the price of traveling fluctuates, of course, with the source or with the origin of the travel and the timing of that travel. Basically, we think we have underestimated the averages that we have used when we budgeted for FY14. We have corrected that for FY15. Hopefully, our estimates will be more accurate.

UNIDENTIFIED MALE: Sorry. Are you saying that you had more travelers from more expensive locations than budget, effectively?

XAVIER CALVEZ: Yes. We had more travelers on one hand, and the average cost was higher than what we had budgeted for. The [appreciation], which is the cost of amortizing assets, has been higher than we had planned. This is a bit of timing issue, as well, because this corresponds to aged assets that have been written off. Notably, in the offices that we have closed, being Australia, being Palo Alto, as well as the old office in Los Angeles that was moved from, as well.

The operations. Operations basically corresponds to the area responsible to Susanna Bennett, our COO, which include Finance, HR, Admin, ERM, Project Management – ERM being Enterprise Risk Management. This area was overspent, as well. Primarily as a result of some headcount that was not planned for. For example, Susanna herself was not budged for at the time we finalized the draft budget, as well as

an assortment of facilities costs, notably in Los Angeles and D.C., which were budgeted for lower amounts.

Our [CEO] has traveled more than he had planned. The pockets under his eyes can attest to it. Notably, as a result of the Internet governance activities that have been carried out.

The Language Services spent has also been higher, as a result of one more language to translate in the meetings than we originally intended to. When I say "intended," budgeted for. We had I think two or three meetings in which we had not planned to, but to translate the six UN languages plus Portuguese. We have done that in the four meetings that we had in this year, one.

Second, we also had more meetings happening outside of ICANN meetings that required translations and interpretation. To be clear, this is an area of spend that definitely expect a continue to grow as we translate more generally speaking, whether it is during meeting or whether it is materials used and produced and published.

All the other expenses, which represent about half of the spend that we're not necessarily disclosing there have more minor variances between actual and budget. When I say "actual," I should say "forecast." Again, this is a forecast of ten months of actual data, plus two months of estimated data. [inaudible]

UNIDENTIFIED MALE: Yeah. Is there any way we could access the all other expenses? Is there any way we could access it?

XAVIER CALVEZ:	We can provide a breakdown of that by function. We have isolated there a certain amount of the larger buckets. [But] we can break out the other functions for the budget in the forecast.

Thank you. We're missing a title on this. Taryn, you and I have missed to say that this is the New gTLD Program.

This is an overview of the New gTLD Program financials for FY14, in regards of the full program costs. It's always a bit confusing to show for the program only one year, because a lot of variances within the year are actually timing variances. You see, on the right of this schedule, the full program costs. The full program costs means the now six years of it, from FY12 to FY17. This is only the portion of, on the left, only the portion relative to the fiscal year '14 that we were just talking about.

We want to show both at the same time because you can see, as an example, that for the fiscal year '14, we had budgeted a revenue of $112 million. We have recognized a revenue of $43 million, which is very much a timing matter, because the revenue for the full program has not been affected. It's just timing, really, at the end of the day. That variance in revenue, of course, driven by the variance of costs that have been lower than planned as a result of the timing of progress of the program.

Lower cost trigger lower revenues. Just want to take an opportunity to remind those of you who don't necessarily know or remember or those of you who don't know that we have collected the application fees upfront in 2012 from the applicants. However, this is cash held. We

recognize in revenues those fees as we progress in the program, as the work is being performed. The main driver for that is that until we have performed the work of evaluation, the fees are refundable. The fees are just a deposit from the applicants. As the work has been completed phase by phase, then the fees come to cover the costs. That's why we're recognizing revenues the fees as the work gets done in proportion.

Yes, Wolfgang?

WOLF-ULRICH KNOBEN: Just for my understanding. If I remember well from the history, so the costs or the fees cover already as well so-called historical costs. So the question is how these [inaudible] costs are here mirrored in that plan. Are they on the expenses side here or the cost side? Is that included here or?

XAVIER CALVEZ: Yeah. You can see – and apologies for the acronyms, but we thought we would provide our own share of acronyms to the rest of the ICANN community. HDC, on this last line of the operating expenses that you see here is historical development cost. It is included in here, to your point. This is an expense for the program, the historical development cost. It's the reimbursement, if you wish, of the expenses incurred by ICANN in the past from the application fees back to the operations.

Moving on. The new gTLD expenses that we just saw being lower than budget by $25 million are largely due to the pre-delegation budget that was including larger contracting costs than was originally planned. The contracting was expected to be more concentrated in time. I said earlier

EN

that it was taking longer. Because it takes longer, it's less concentrated in time. Therefore, it takes less resources at one time to be able to handle it. We've been actually able to handle internally most of the contracting of the registry agreements with the applicants.

We are also dealing currently or have so far dealt with relatively low number of specific cases that represent a lot of time in contracting. The contracting that's happened so far is a little bit more standard as per the registry agreement, with little amount of customization, which requires low amount of resources.

The RSTEP is also in the extended evaluations phase. The RSTEP has been happening a lot less. We'll start with that. The extended evaluation have lower costs.

The quality control costs are happening, but with a different timing, though we are also hoping that they will ultimately be lower.

The initial evaluation costs that were remaining from FY13, because you may remember, most of the initial evaluation happened in FY13, but not all of it. That's the remainder of the initial evaluation cost. It happened at the lower cost than we anticipated. I think there's a little bit of timing, as well, in there, in the sense that I think some of the costs that we originally had budgeted for 2014 fiscal year, some of that has also happened in 2013 this time. Not later, but before.

Objections. The objections have cost us less during this fiscal and expected to cost less overall for the program. Less objections than we had originally planned in the program and at a lower cost, as well. If you remember, planning for objections, how many objections, what

EN

objections, what would they be, how complex would they be? Notably, the independent objections, as well, was really a finger up in the air. That's turned out to be significantly lower spend.

The timing of the hiring of the New gTLD Team has also been delayed. You've seen that there were less headcount in the New gTLD Program than was planned for. It also happened later in the year, in addition, than what was originally planned.

The program administration is the costs are slightly higher, mainly as a result of the systems processing infrastructure that has been put in place that has been higher than what we had originally budgeted for for this fiscal year in the program.

Sorry. This is the end of the section, relative to FY14. We'll take more questions, of course, at the end. Sorry, yes.

TARYN PRESLEY: There's one question in the chat room related to the forecast from – I'm sorry if I mispronounce your name. The question is "NETmundial said the event cost was funded by CGI.br. Is the cost incurred by ICANN related to participant sponsorship? Secondly, can you briefly explain the process involved in receiving and approving ICANN audited account report?"

XAVIER CALVEZ: Okay. NETmundial, the costs of the NETmundial have been shared between CGI and ICANN. ICANN has paid for a number of costs, including those that I put back on the slide, here. The support, the travel

funding support to the community who attended has been provided by ICANN. The logistical costs have been shared with CGI and ICANN. Hopefully, that answers your question on that. When I say "shared," it's shared 50/50. That's what ICANN contributed for NETmundial.

As it relates to the audited financial statements, can I ask you, Taryn, to repeat the question, please?

TARYN PRESLEY: Sure. "Can you briefly explain the process involved in receiving and approving ICANN audited account report?"

XAVIER CALVEZ: If we are referring to the audited financial statements, this is a process that happens annually. The financial statements of ICANN are being audited by an independent auditor. That, in the past, has been Moss Adams. The independent auditor reviews the financial statements and does a number of controls on them and produces a report that provides an opinion on the financial statements. They do that annually. This report is finalized prior to October 31st every year, because our bylaws require that it is produced no later than 120 days after the end of our fiscal year, which is June 30th. Our audited financial statements are produced then.

Once our audited financial statements have been certified by the auditors, we publish the report on our website. If you go to the financial section of the website, if you are on the homepage, you scroll down and you click, at the very bottom of the page, on the financial section, you will access this financial section, which is organized by fiscal year. In

each fiscal year, you will find the link to the audited financial statements. Those are published usually somewhere in the month of October. Again, I said no later than October 31st, but we have usually published them I would say in the first part of October, as a history. Hopefully that answers the question.

TARYN PRESLEY: One last question from the chat room from Philip Du Bois, DNS Belgium. "Why is the net balance of the full gTLD Program on previous slide $20 million lower than budgeted?"

XAVIER CALVEZ: Let me go back there. The $20 million that Philip is recurring to is the number at the very bottom, right here, corresponding to the variance for the full program balance between the current estimate – or at least, as currently as we have it, which is end of April this year – versus the estimate from last August.

The main driver of the variance, Philip – and everyone – is the fact that the program has been – we have forecasted that the program will last longer by two years than what the previous forecast in August 2013 was.

In August 2013, we didn't try to take a position as to the timing of contracting of the program. It has now, through the past few months, become clear that the timing of the program – and when I say "timing," the conclusion of the program – would have to be much beyond FY15. As a result, the overall costs of the program have increased, also because there's a certain amount of fixed cost associated with the

programming existing, one. Second, because there were also a number of costs that had not originally been included in the estimates.

Economic studies, notably, had not been added. Those studies are relative to the competition studies that have been included in the applicant guidebook and are required as per the GNSO policy of the applicant guidebook to evaluate the impact of the new registries on the DNS. Those economic studies, the cost of those were not planned at the beginning of the project in the financial estimates. Honestly, they should have been.

That's the main drivers, Philip, for the variance. Sorry. Just to finish on that, there is more detailed information on the New gTLD Program financial impacts in the draft budget that's currently under public comment. Feel free in the section 3, starting, from memory, pages 62 or 63, there is the new gTLD financial statement section. There's a bit more detail – significantly more detail in that section than there is here. There's another question.

UNIDENTIFIED FEMALE: I have a question about the three contingency costs. Do you want me to ask now or later?

XAVIER CALVEZ: If you don't mind, can you hold onto it, please?

UNIDENTIFIED FEMALE: Sure, yeah.

XAVIER CALVEZ: Thank you. I want to make sure we get a chance to hit the next subjects that are important, as well. But I will come back to your question. Thank you.

FY15 draft budget. As a reminder, we are still in during the public comment period, which finishes July 1st. It has started May 8th. This is a public comment period that's lasted approximately 50-and-something days, which has increased versus last year.

As of the 25th, we had received two sets of comments, a question from Ken Stubbs. It's not that I want to individualize Ken, other than it's on his own behalf that he has provided this question. On providing more detail on the U.S.G. transition costs that appear in the budget, the $4.7 million. The ccNSO, through its Strategic and Operating Plan Working Group – the permanent working group that the ccNSO has – has provided their draft of their public comments, comprehensive response, I think. Roelof, you don't expect additions to what's been already submitted, unless I'm mistaken.

I have just – you'll pardon my inaccuracies in what I'm saying, but I have extracted two sets of comments that I think are in the executive summary. Hopefully, it's a reasonable summary of the comments. Positive feedback on format and content, [inaudible], and regarding to substance at a high level, because there's a lot more comments in the ccNSO comments relative to each portfolio and objectives and goals. But at a high level, expenses are growing either too much or too fast or both. Revenues assumption appear optimistic. As a result, how do you

monitor revenue growth, expense growth so that one doesn't exceed the other? There's a question from – yep, sure.

CHERINE CHALABY: Just a clarification from Roelof. Was this all the revenues or just the gTLD revenues that were optimistic? I forgot. At our meeting, you mentioned the gTLD was also the other revenues?

ROELOF MEIJER: It's mainly the new gTLDs, because there's I think something like an increase in the revenues from $3.2 million FY14 to $32 million FY15. But in general, we also commented that we think that a global domain name sales trends are not enough taken into account. Even on the regular revenues, I think there has to be prudence in increasing the growth line that we've been seeing over the last two years.

CHERINE CHALABY: We going to discuss these comments a later stage?

XAVIER CALVEZ: Yes. From a process standpoint—

CHERINE CHALABY: Here or at a BFC meeting—

XAVIER CALVEZ: I have the next steps. We'll address that, but yes, Cherine, we will discuss those comments with the BFC. Anything else, Roelof, since

you're here? Anything else you would want to highlight out of the comments of the ccNSO rather than me doing it?

ROELOF MEIJER: I think, well, you picked the two points, I think.

XAVIER CALVEZ: Okay.

ROELOF MEIJER: We were very positive about the improvements in the plan as compared to previous plans. Especially the combination of expenses growing with 27% for operational costs and the revenues being pretty optimistic at 33 million new gTLD registrations in FY15. We think that combination is…

XAVIER CALVEZ: A risk. Very clear. Thank you. That's the comments that we have received so far. Again, the period closes July 1st. I have discussed with the At-Large Organization and I expect their comments by the deadline. I'm assuming other organizations will also put them through. [inaudible], do you know for the BC, it's in the pipe. Yes, thank you. That's the comments to-date.

Next steps to address Cherine's point. Public comment closes July 1st. We will, from that point, gather, analyze the comments and draft responses. We want to make sure, and this is partially the reason for the delay of the approval of the budget is to allow adequate time to respond to the comments received. We will review those comments,

draft responses, and submit those comment and responses to the BFC for review. Cherine was anxious to know when we would discuss those comments. This is where the staff will provide an analysis of those comments to the BFC and where they will be discussed.

Of course, the comments and the answers may include also potential suggested changes as a result of the public comment that will then be reviewed by the BFC early August. Decisions will be made then as to what the budget that should be submitted for Board approval will be. The Board approval is expected towards the end of August, maybe early September, dependent upon certain timing constraints. That's the next steps for the budget.

UNIDENTIFIED FEMALE: Just a quick question on this slide.

XAVIER CALVEZ: Yes. Yes, yes.

UNIDENTIFIED FEMALE: The answers that the staff draft for the comments, are they published as well?

XAVIER CALVEZ: Yes.

UNIDENTIFIED FEMALE: Okay.

XAVIER CALVEZ: Thank you for that question, because I should have put it there. Once the BFC will have reviewed and approved those draft answers and possible changes and along with the final budget, the responses to the comments will be provided. What we have done in the past, not systematically but at least once or twice, is have a call. We invite anyone interested to have a call to review the comments, as well, and the responses. But they will be, of course, published. Where? In the public comments section as part of the public comment process and the responses to the public comments is of course published in that section.

Moving on. Let's look '16. FY16 process. What should we do in FY16? To do that, of course, looking a little bit at the past and accumulated experience that we have together on the budget process. What works well, what didn't work well. We've just highlighted here a couple thoughts. We've had extensive discussion with the BFC Board members during the past meetings on what we need to do and what works well or not. But your input, whether during this forum or separately on our website, through the public comment period, or at Controller@ICANN.org if you prefer. Whatever is easier for you.

We welcome your comments on what is good in the FY15 budget process, what was good, and what didn't go well. I'm nearly more interested in the what didn't go well so that we can focus on that. But knowing what we do well is also useful so that we keep doing it.

We talked about the format and structure of the content. We have received relatively positive feedback on that, and not just public comments, even though it's later than originally planned. It's also

longer. Hopefully that is also helpful. But if it's not, let us know. Other things that work well, your input, again, will be useful on that.

What did not work well? This year, we lacked a direct link in visible and explicit between the strategic plan and the operating plan. We knew it from the start, right? It was clear from the start, because the panels and the strategic planning process was under review, under full re-haul. We knew that we would be carrying out the FY15 operating plan process in parallel of the redesign of the strategic plan. This was known. But nonetheless, this is something that is not present during the FY15 process.

We made some changes in the middle of the process. Never a pleasant thing to do and never an efficient thing to do, but we had to. That's something that we want to acknowledge here in that we need to be able to mitigate in the future. We delayed the publication of the draft versus the original plan. The target date was April 24th. We published it on the 8th of May. That two weeks delay is primarily driven by the late inclusion in the budget of the U.S.G. transition envelope that was [inaudible], because that information came very late in the development of the budget. We had to take into account. It took us a bit of time.

As well as the BFC review of the draft budget took us I think, from memory, [inaudible] three meetings. For the right reasons. Looking, the BFC had questions. We did more analysis. We met again. It was a good, efficient, and substantial iterative process. It took us a little bit more time, as well.

The delay of the overall Board approval from June to end of August was driven partially by that and also to address the need, to make sure we provide sufficient time to response to the comments so that we do a better job at responding to the comments. This is front of us. We expect that we will be able to do a better job at responding to comments by taking a more deeper look at those comments and at the responses.

We also had less frequent interaction with the community during the development of the budget. This is something that we had done a bit better the previous year and that the changes in plans have not allowed us to do as well this year. This is something that we need to work on, as well.

This leads me into: Now what do we do? I should stop there for a second. Immediate reactions to what worked well or what didn't work well for our FY15 budgets from anyone here or on the remote participation?

UNIDENTIFIED FEMALE: I have a question about the what did not section. Where did you get these comments from that, for instance –

XAVIER CALVEZ: So far, from Taryn and I and Carole, who were –

UNIDENTIFIED FEMALE: Internally.

XAVIER CALVEZ: It's been internal for now. That's why I'm asking for your input here.

UNIDENTIFIED FEMALE: Okay.

XAVIER CALVEZ: We're not even finished yet with the FY15 process. But I thought it was a good point to look back at what's been happening so far and what we think didn't work well.

UNIDENTIFIED FEMALE: Okay. Okay. For example, for the no link with strategic plan, I guess it's a bit too late now to do—

XAVIER CALVEZ: Oh, it's far too late.

UNIDENTIFIED FEMALE: Right, okay.

XAVIER CALVEZ: It was too late already in November. That's why I'm saying we knew about it. We knew entering the process that we would not have a strategic plan to go by. There's nothing we can do about it anymore. This is why it's looking back. We knew entering the process that we would not have it.

But I think it's an important point, because I think this is a significant shortfall of our processes, not just in FY15 but in the past, to not have had a clear, explicit link between the strategic plan and the operating plan. The operating plan should just be the translation of the next year's action from the strategic plan that gets us closer to our objectives, right? That's what it should be. The budget should just be the financial quantification of that action plan of that operating plan. We haven't had that this year.

UNIDENTIFIED FEMALE: I guess my question really is now that you are aware of this shortcoming, are there any specific plans or ideas about how to ensure that for FY16, there is a link? Is that a next slide?

XAVIER CALVEZ: Yes.

UNIDENTIFIED FEMALE: Okay.

XAVIER CALVEZ: We all want to change for the better. More interaction, better predictability of the process, stability of the process would also be useful. To hell with predictability. Better information. I think there's been, over the past couple years, a lot of improvements. Notably this year on the amount and structure of the information. It's acknowledged, but we can always do better.

We've had a number of discussions with the Finance Committee and the Board generally on this subject. Consistently with discussions with the staff, consistently and in parallel with ATRT-2 recommendations that are coming to a close now. The Board has made a point of wanting that staff can develop a process that enables broader community input. Broader is yet to be defined, but this is something that we will work on more. More frequent, different than what we have been able to do so far.

Also, that allows to have a longer horizon ahead than just one fiscal year, which is definitely something that goes along very well with the current strategic plan that's being finalized now, which is a five-year plan. Then, we can associate financial statements to that five-year plan. Again, those financials would be really the quantification of the resources required to carry out the five-year plan, basically, and to achieve the objectives of the five-year plan. That's the logic behind it. There's a resolution that was passed by the Board, formally requesting this from staff and materializing the strong will from the Board that the organization goes in that direction.

Cherine, anything you want to add on this?

CHERINE CHALABY: No, you've said it quite rightly. I mean, there are two things I think which is important. One is that everybody can look forward and not just have a narrow view on one year, so that particularly, things with the New gTLD Program, you need to see how it pans out over a number of years. That is important.

The second thing is we have never, never reach, until now, the right balance between participation of the community and its input in the preparation of the draft budget. Then, allowing sufficient time after the draft budget for a lot of comments and input and interaction to make adjustment.

I just sincerely hope we reach that. We find a way of actually getting the community to participate, plenty, plenty, plenty before the posting of the draft budget, and allowing sufficient time for the comments to be made afterwards and responses to these comment.

That's the objective. I sincerely hope we find that smooth process that allows us to do so.

XAVIER CALVEZ: Thank you.

UNIDENTIFIED MALE: Yeah. Just to support that statement in the spirit of bottom-up approach.

XAVIER CALVEZ: Thank you. Stuart?

UNIDENTIFIED MALE: I think the other difficult thing has been with the forward forecast is anybody who has tried to forecast gTLD income has been misguided. But now, we're entering a period where we understand what the timings are. Perhaps this longer-term [inaudible] more [possible].

CHERINE CHALABY: You're probably right. We have a better handle on forecasting cost, so you might be able to at least to see one side of the equation, which is a little bit more certain than the revenue side. The revenue is – there's two element of the revenue. One is revenue recognition, which is a factor of cost. The other one is really the fees that we get, which is separately from that.

But at least from a New gTLD Program, in terms of the cost and the revenue recognition and what's the remaining balance, all of that. At least we can project it forward. That will be, in my view, very helpful for everybody to see it all. I think we've done it so far. It's not like we haven't. But I think the more we do it in more detail and project it forward, the better it is for everybody.

The bottom-up, like [inaudible] mentioned, it is a bottom-up process. I mean, we have to live by it. We have to make it happen. Everybody wants to make it happen, it's just there's so much happening and the time is always squeezed and not enough time to do it right. Let's do it and fix it, once and for all.

XAVIER CALVEZ: Two quick comments on my end relative to the predictability of revenues. It's nearly a new market. Assessing the performance of the developments of a new market is always challenging, especially on a multi-year basis. But I think that we can always forecast, right? It's just a matter of assumptions. I think that, the Cherine's point, the predictability or the ability to predict expenses or to forecast expenses

is a little bit easier because it's a little bit more ingrained into the reality of people, costs, infrastructure, and so on. This is real.

Revenues is largely a matter of assumptions. I think the transparency on those assumptions is what needs to come along with those assumptions. Because then, at least, everyone can have an opportunity to see for themselves whether they agree with the assumptions or not. Whether, yes, they read the market to be like that or not. It's about our ability to use market data as much as is available, which is not a lot, but nonetheless use the market data. Then, be transparent on the assumptions that we're retaining to calculate the revenues.

What has enabled Roelof and the ccNSO SOP Working Group to make the comment that they made on the assumptions because they think the assumptions are optimistic. Well, at least, I think we know in the budget what the assumptions are. We've said 33 million of registrations. I think as part of the comments, we will provide the averages that we have used to come up with the 33 million, because it's relatively simply a number of basically how many registrations above 50,000 transactions per 4 consecutive quarters, because that's the trigger for ICANN to charge fees. How many registries under 50,000? What is the ramp up and so on. We can provide that and will provide that as part of the responses to the public comment process to help understand further those assumptions. Then, those assumptions can then be further challenged or reviewed and commented upon.

The [fix] fee of – yes, please.

UNIDENTIFIED MALE:	Xavier, just make sure that you don't only provide us with the calculations, the arithmetic behind your prognosis, but also with the, let's say the vision in relation to global market domain name sales developments.
XAVIER CALVEZ:	As much as possible, yes, we will do. Sorry, Taryn, go ahead.
TARYN PRESLEY:	A quick time check. We have about 12 minutes left in the session. We also have a question in the chat room from John [Shoemaker].
XAVIER CALVEZ:	Yes, go ahead.
TARYN PRESLEY:	"Can you discuss projected revenue generation in regards to the new TLDs in the next two fiscal years?"
XAVIER CALVEZ:	Not right here. That's part of the challenge that we have is to be able to gather sufficient data on that information. I think there's a lot of speculations in the market on what the success of the new gTLDs will be or not. We don't have a lot of data now. Therefore, I'm not qualified or equipped right now to be able to have this discussion, even though that's all something we would like to know.

This is something that we haven't had internally in ICANN and the staff is capabilities to analyze markets, which we are working on. We need to find the right skills and resources to be able to help analyze the market. It's possible. It's not like – every other company who enters the market or tries to create one is doing that. But it takes a fair bit of effort and expertise, which we didn't have so far internally and we still don't.

This is something we're going to need to develop to be able to base more, as we try to look further ahead in the future, we need to have more capabilities to analyze the data that is available and extrapolate. You don't want to leave that just to me, because I'm not an expert in the Domain Name System. Wof-Ulrich?

WOLF-ULRICH KNOBEN: One question about revenue project is one project revenue is one side. Benchmarking costs the other side. My question is what is about that? Every time you said, "Well, this market is so unique and ICANN is so unique," where can we benchmark and how can we benchmark?

XAVIER CALVEZ: This is a good question. This is recommendation 12.3 of the ATRT-2 Team that has formulated recommendations various aspects of finance. Benchmarking of the organization has been recommended every three years as part of this recommendation.

Staff is taking those recommendations into account. I will mention in parallel, because this is the way we are thinking to address that specific recommendation of ATRT-2 is to use the current plans of the executive dashboard. I don't remember, Wolfgang, if you were in the session

yesterday, but the executive dashboard that Carole Cornell has led that this is initiative that's been started over the past few months to produce an executive dashboard. There are KPIs and metrics at the staff level, at the management level, at the Board and the community level. Those metrics will be used to then, once you add an external reference, so benchmark to it, then you can monitor those benchmarks – sorry, those KPIs against external benchmarks.

That's the way we're intending to handle that. We're trying to fully implement the KPIs and metrics within the organization. Once we have stabilized that set of KPIs to then compare them to external benchmarks.

Because it has a certain amount of granularity, the obstacle that everyone sees when we say, "How do we benchmark? Who are we going to benchmark ourselves against?" when you look at sufficient granularity, you don't have to find the exact organization that is the exact same thing that ICANN. Which there isn't. But ICANN benchmark the finance cost of the organization to other organizations' finance costs, even if they don't do the same thing. That's fine. It can do that. What I will draw is differences and explain those difference. That's the benefit of a benchmark exercise. This is the way we're intending to address that need. It will be extremely helpful. [inaudible] Sorry.

UNIDENTIFIED MALE: Xavier, what you said is absolutely right and I support that. The more difficult one is benchmarking revenues. How are you going to do that? If you people have idea of which organization should benchmark against, please submit those ideas. Because we ask the ATRT-2 Team about

which organization to benchmark against, they said ISO. Okay. That gives us certain benchmarks. Maybe cost, maybe things. But the revenue side, which Roelof – the thing we have to remember, this is our budget. It's not ICANN staff's budget, this is our collective budget. The assumption will be our collective assumptions.

I'm not sure we're going to get 1,000,000% right. We have to be reasonable and conservative and have prediction for revenues that matches the cost increase, which I like very much your point on that.

Again, we're going to make assumptions together. We will put one set. You will comment. Collectively, we'll make a joint assumption. We live by it. We're going to be very frugal and try and lift those assumption. But you never know how the market takes place. Thank you.

XAVIER CALVEZ: Thank you. What I didn't want to do is say, "Well, this is what didn't work, so this is what we're going to do next." What I think we need to do is work together to define a plan. Define a plan that works. I've had a number of conversations with a number of you about how to do that. My strong belief is that we will not manage to improve our process unless we do two things. One, that we develop it together. It is important for me for the community to be able to understand the constraints and the needs of the organization. It's important for the ICANN staff to understand the constraints and the needs of the community. That we together look at those constraints and needs and say, "So, how are we going to address [them]?"

EN

We have a certain amount of accumulated experience over the past few years that we have on-hand to be able to know what doesn't work well. We have probably a bit more data on what doesn't work well and a bit less on what works well. But I also think that we have some ideas as to what we want to do.

More interaction. How to have this interaction happen. How to have the broader possible community participation while dealing with the subject that's relatively technical, relatively specific, and that does ideally require experience to participate to. These are the challenges and the constraints. We want to have a more participative process while fitting within a timeline that's imposed on us. There's only 12 months in the year. That won't change.

How do handle that? What we've been discussing and are suggesting to do is to create a small task force. Task force as opposed to working group. Task force because we would like to try to basically achieve the following objectives.

Submit a draft annual planning process to the BFC during its September Board workshop in Istanbul, second week of September, from memory. We have two-and-something month to work to do that.

Deliverables, and that's one of the things I wanted to emphasize. A draft plan and budget process that includes roles and responsibilities. Who needs to do what? We have various parties here. We have the Board that approves. The BFC that reviews and recommends to the Board.

We have the staff, but within the staff, there's three main groups. There is the management that ultimately validates the draft to be submitted

to the BFC. There's the finance staff that works on helping putting things together. There are the budget owners. Budget owners participate strongly to the budget process, and we need to – to the development of it. This is what we need to be able to look at, as well.

The roles and responsibilities of each. What should the community look at? What does that community want to look at? Details? Aggregates? Everything? That's what we need to define, because unless we've defined that, which we have never done in the past. Never done that. Unless we define the roles and responsibilities, we will not know what we need to do and when and how, by definition. We have never done that exercise. I think we definitely need to.

The formats, the structure of the data. What we produce and the roadmap with basically the plan, the sequence of steps and their timing. That needs to include adequate communication between staff and community, between community and staff, between staff and the Board and the BFC, and so on.

The initial discussions on how to do that has been to create – and this is suggested thoughts. Your thoughts on that are very welcome. What I have discussed with a number of you, notably in Singapore and a little bit since, is to have a relatively small team working together. I suggested no more than 12 people so that it remains manageable. That includes both community members and staff that basically sit down together. We lock ourselves in the room. What I'm expecting a hopefully face-to-face two-day meeting. We come out with a process. Roles, responsibilities, planning, process. This is so that we can submit it to the BFC in early September.

If we manage to do that, we then need to submit it for review by the broader community. We'll need to also think about how to do that. The task force would terminate itself once the FY16 process is finalized and approved in October, basically in the L.A. meeting. We don't have a choice. It's very tight. Yes, Cherine.

CHERINE CHALABY: Just a point here that there are four quarters in the year, right? In FY – next year, for the FY16, we're using the first quarter [literally] to agree on the process of preparing, all right? That's going to put pressure on the other three quarters, yeah? You have to recognize this. Ideally that, once you get it right, you ain't going to get it 100% right next year. Because you've wasted a quarter thinking about it. Ideally, the following year, you start earlier and that quarter is not wasted. Just a point of caution, that's all.

XAVIER CALVEZ: I definitely expect that's one of the many things that the task force would look at.

CHERINE CHALABY: You agree? I don't think we have an option, here. We have to do it. We have to really do it once and for all. That's going to take time.

UNIDENTIFIED FEMALE: I'm sorry. Especially since you said this has never been done before, which I found a bit surprising. But if that's the case, then it has to be done. You have to take the plaster off and…

XAVIER CALVEZ: Exactly. I completely agree. I think that we will have a nine-month process for FY16, which is why I indicated earlier that I think we need to submit two things to the BFC. An annual planning process and the FY16 planning process. Because at the end of the day, there may be some differences, right? Because in FY16, we may have to do some shortcuts about things that we would want to do differently on a normal, annual basis.

Sorry, just one last comment quickly. What I'm expecting would take the earlier part, the first quarter, would be located within the first quarter of the 12 months period is the strategic planning link between strategic plan and ops plan, which should be at the upstream part of the developing the budget. Because you need to know what objectives you need to achieve, what is the action plan so that then you can develop the operating plan and the budget. This is the first thing that needs to happen. Planning. Yes, sorry, Roelof.

ROELOF MEIJER: Yeah. I'm sure you see this coming, but a word of caution. This time, you or we really have to make sure that we actually deliver on this. Because over the last many years, we've been working on processes, working on plans, and it's always been a reason why in this particular year, we will be too late or it will not be complete or it will a first attempt.

Like my working group has concluded, there's now a phase in where we are really seeing progress. I think it's a very good moment. Now we make sure that we do this and we do it well.

XAVIER CALVEZ: Believe me, I think we all want that. I mean, the BFC has had numerous discussions of this subject.

UNIDENTIFIED MALE: We've said exactly the same thing, yeah. Every year we said – no, I tell you who is the person suffering from this more is him. Xavier want that process, because we're all then pile up on him and say, "It's your fault, it's your fault."

XAVIER CALVEZ: And then I say it's Taryn's fault.

It's well understood. But I think it's less about the people than what we've done or not done before. Again, to your point earlier – sorry, I didn't catch your name earlier, but to your point earlier, we have never defined the roles and responsibilities. We have never defined who does what and information we produce.

We've done it and then said, "Oh, it doesn't work. Let's do something else." Then, we've iterated and bumped into the wall, went into another direction, and so on. Now we need to define a process that we can stick to, that we have taken and developed as a result of taking into consideration what we want to do collectively and that we stick to that timeline.

By the way, what we develop needs to take into account the fact that there will be things that we don't know. Always. Hopefully not a U.S.G.

transition every year, but there will be things that we don't know. In that, we need to develop something that allows for it.

ROELOF MEIJER: Is there time to just raise one more point on the process or are we done?

XAVIER CALVEZ: This is our last subject. We're slightly over time. But I think we can take a little bit of time.

ROELOF MEIJER: Okay, [inaudible]. This year, given that everything was squashed, we decided to postpone the approval of the budget by I think two months to allow for comments and sufficient time for this interaction.

I wonder, this is just for input, if this is a good thing that we always do, i.e., approve the budget after the last Board meeting of the year. Because here are some comments we heard. We heard that we submit comments and then you have your June Board meeting, before the end of [inaudible], and then suddenly, the Board approves the budget.

Community has, in the past, felt uncomfortable in that the Board approves the budget during the meeting, not allowing for interaction during the meeting and for more feedback.

Maybe that's the nature of the multi-stakeholder model, that you may want to approve it at least a month after the final Board meeting, something. It'd be interesting when you discuss the processes where

this is something we ought to do as a matter of fact, rather than press it very hard and always having the target [inaudible] last, yeah?

It's a thought, because then people feel – have more time to make comments while they're here at the last Board meeting for any final adjustment if needed be. Thank you.

XAVIER CALVEZ: Definitely something to consider. Please.

UNIDENTIFIED FEMALE: If I may go back to my question I wanted to ask earlier. You had mentioned, I think on page two or three of the slides, the three contingency costs against budget. There was the NETmundial, the e-friction report, the IETF sponsorship if you remember, right?

XAVIER CALVEZ: Right. Well, there was a bit more than NETmundial and Internet governance, but yes.

UNIDENTIFIED FEMALE: Yeah. NETmundial/Internet governance.

XAVIER CALVEZ: Yes. Yes. 1Net, Bali.

UNIDENTIFIED FEMALE: E-friction. 1Net, as well. Where was the 1Net [inaudible]?

XAVIER CALVEZ: Yes.

UNIDENTIFIED FEMALE: Okay. Irrespective of – my question really is about the – two parts to my question. How do these requests come in for contingency money? Then, secondly, when I say, "How do they come in?" what's the specific channel? More importantly, how are these requests evaluated? If somebody says, "I want $10 for this," another person says, "I want $20 for this," what means are used to evaluate these requests for extra money? Is there, for instance, a business case done? Who looks at this business case? Is a business case required? Who looks at the business case and then who does the approval? Just a little bit on the process, if you don't mind. Thanks.

XAVIER CALVEZ: Before I get into the process, let me re-clarify what the contingency is. The contingency is basically an amount of expenses included in the budget. But not allocated to anything, as opposed to the rest of the budget, where [inaudible] personnel, it's going to be professional services, it's going to be rent, it's going to be for finance, it's going to be for GSC. Budget defined by the organizations. Then, on top, we always add a contingency budget, just recognizing the reality of life which is, again, as I said before, the budget is obsolete the day after it's been approved. [inaudible] nearly say produced, just because things always happen differently. That's life.

The contingency is there to basically allow for things that happen differently. It's not a bucket of money that we just pull out of to do whatever you want. It's really there to allow for differences in things that happen.

We haven't had, and that's a subject that Cherine can attest with disgust as well, we haven't had a governance mechanism for contingency [funds]. To conclude on what the contingency is, the contingency is part of the approved budget. It's approved spend. It's unallocated. There's no further approval to be provided for those funds to be utilized other than the general contracting and [dispersion] policy that ICANN goes by, which is that any contracting or single disbursement, in excess of $500,000 needs to be approved by the Board and is recommended usually to be approved by the Board through the BFC (Board Finance Committee). But that's not specific to the contingency. It's not specific to budgeted or not budged expenses. It's anything above $500K [inaudible] needs to be approved by the – any single expense above $500K, $500,000 needs to be approved by the Board.

UNIDENTIFIED MALE: Sorry. That is outside of the existing budget.

XAVIER CALVEZ: No.

UNIDENTIFIED MALE: Full stop?

XAVIER CALVEZ: It's not that outside of the [inaudible] – it's any expense above $500K. Single expense. It needs to be approved by the Board. Sorry, to just make it clear on that, the Board approves the budget. In the budget, there's the ICANN meetings. But, the venue costs usually exceeds $500K. One contract with a venue usually exceeds $500K. We go to the BFC and then to the Board for approval of contracting with a venue for that purpose. It was budgeted. It's all planned. But it's still is required [inaudible] contracting disbursement policy. I just wanted to mention that because that's in the picture of your question, relative to contingency.

Now, we do not have a specific process for contingency spend other than internally in the organization. Each organization has a budget. We monitor the spend against budget, as per the plan for each organization. What has happened is if you see these items, they're relatively specific, isolated. It's not like a new department's been created or it's not spend across several departments. It's relatively specific events, right? As it relates to this, it's basically been the management of ICANN and discussing with the Board in various occasions, this is what presents itself. This is what we think we should be doing. Even though that's not been a formalized and formal process, there's been a number of discussions with the management and the Board.

Let me take an example. The Bali IGF sponsorship. A few weeks before the IGF in Bali, the organization that manages has indicated that they had funding issues. A member of the management team of ICANN, who of course is in constant coordination with ISOC and the Internet Society

EN

has, "How can we help?" This is support of the community. Fadi and his team has discussed it and a number of the Board members have been involved in understanding what the issues were and how they could be resolved so that the Bali IGF happens. The Board, therefore, has also discussed these elements with the management, who said we should be doing it.

I'm taking an example. You can see, it's a little bit informal in this case. But the discussions have happened to make sure that that effectively happens. Therefore, Fadi has said to the Board, "Listen, this is what it looks like." A number of Board members were with him, discussing with ISOC. "This is what it looks like. I'm hoping we can contribute no more than $250,000, but we may have to go higher." At the end of the day, we contributed $250,000.

CHERINE CHALABY: One just extra point of information.

XAVIER CALVEZ: Yes.

CHERINE CHALABY: The BFC meets about, what, ten times a year? Every meeting, we review what's in the contingency. How much has been spend, what are the requests, has anything been exceeding the $500,000? We keep an oversight on it all the time.

But as Xavier said, this is not to support individual departments once they exceed their budget. This is for unexpected events. Because almost

impossible to imagine all of these things happening. You need a little pot of money, which here is about 5%. The amount is 5% of operating expenses set aside for contingency – because you can't plan everything, which is normal.

UNIDENTIFIED FEMALE: Thank you for that, Cherine. But I think coming back to my original question about the business case. Irrespective of the fact that this is a contingency part, I also have a contingency part for my own personal budget. Irrespective of what percentage it is of the total budget, shouldn't there be a business case done for every request over a certain amount?

For instance, if you have multiple requests, what would you do if, in one year, you get ten requests for that contingency money? How do you make a decision? How do you weigh one against the other?

XAVIER CALVEZ: This is very reasonable question and point. Effectively, in the past, we have not had as much as this year. Competition of events or volume of events that make the contingency being used, Cherine can attest that the contingency has actually never – well, let me rephrase. I don't know about never, but at least in the past four years has never been utilized fully because there was no reason for it except this year.

CHERINE CHALABY: Last year, it wasn't utilized at all.

XAVIER CALVEZ: Yeah. Yes, I think that there is an evaluation of the benefit of the request. You're using the term "business case," which I think is really the cost-benefit ratio of doing or not doing something, right?

We don't currently have something. Should we? I agree with that. I think how we do it is a little bit challenging. We just need to think through how to do it, because these events are – there's no pattern or there's no predictability and there's no, how to say that? Let me take a different – we could have not funded the IGF. If we would not have helped funding the IGF, by the way Fadi and Chris Disspain and a number of Board members who have participated to help, have raised funding more than what ICANN has funded. Together, the ICANN Board and community has raised funds for the IGF to happen beyond the contribution that ICANN has provided.

The evaluation of benefits of doing that versus the cost of doing that are very intangible. Should that mean that we should not measure them? No. I agree with you. We need to probably formalize a little bit how we do that. How do we evaluate? If only setting criterias. We have discussed with Cherine that we need to establish for ourselves a little bit of a governance of the contingency. What is it used for? How do we monitor it? This is something on our to-do list. [inaudible] completely reasonable question. Thank you. Stuart? No? [inaudible]

UNIDENTIFIED MALE: Just to say that I agree with what she said, to justify. [inaudible] of justifying that decision. What percent is the contingency of the budget?

XAVIER CALVEZ: About 5%.

UNIDENTIFIED MALE: 5%. Then, the 12 member of the task force, do you have any model in mind of terms of how community will participate [inaudible] begin to think ahead.

XAVIER CALVEZ: I would like to make sure that we have at least – thank you very much, Cherine. Appreciate it very much, the participation. Sorry. Yes.

I would like to make sure that we have at least one member of the main groups that have participated to the budget process in the past. You're on my list, [inaudible], in the sense that Chris and you have always shown an interest in the budget process. I would like to make sure that those who have experience in the budget process participate. I have discussed that with Roelof in the past, as well. I'm hoping he will be able to participate. I know Tijani and Olivier Crépin-Leblond from At-Large are interested, as well, and have experience in the past and have participated. Chuck Gomes, who thought he could be here but couldn't, also. I'm going to try to make sure we have all the ones or all the organizations that are represented that have participated in the past.

The reason I'm using this self-defined criteria is that ideally, I would like to have every organization, but one, it's a bit challenging to work with because it's a lot of people. But two, if those organizations have [inaudible] participated to the budget process in the past, then I think there's a little bit less interest and experience in living through the

process and therefore being able to feed back that knowledge into redesigning something.

I would like this group to be a relatively focused, not necessarily experts but experienced and interested and wanting to contribute. Having said that, within those limits, I think the broader representation, the best, right? That's what I would like to try to have is at least each of the organizations that's participated in the budget process. They are known, right? It's the ccNSO, the BC, the ISPs, At-Large, and Steve Metalitz's group, ISP/CP. The acronym I always miss. The ISPs and a little bit SSAC, but a little bit more specifically as it relates to their funding needs. I think the groups that I mentioned before are more generally interested with the overall process and the overall output. That's what I have in mind.

Any last – sorry. Go ahead, and there's the gentleman behind you after that. Can I ask you to please take a mic, please? Thank you.

BARRY FELLMAN: Barry Fellman from Vivid Domains. I was interested to know where you thought the proper form would be to discuss revenue sources and types of revenue sources.

XAVIER CALVEZ: You mean as part of the budget process or more generally speaking?

BARRY FELLMAN: Both. Where would it be appropriate to address efforts that ICANN might make to seek revenue from other sources than it currently seeks?

XAVIER CALVEZ: I think, in terms – without trying to get into the specific subject, I think the how would be probably be – I think the best, in my views, would be either to put through a comment as part of the public comment process on the budget. To [inaudible] in this case speak about the existing funding and resources, but funding and resources that we're not looking at. In my views, that would be the way to go. If you go on our public comment section in the website, there's the public comment process on the FY15 plan. You can submit a comment there. You can definitely submit a comment about funding resources that we are not looking at currently.

BARRY FELLMAN: There were, during previous ICANN meetings with staff, going back many years, the idea that other sources would be sought after. Has there been any effort by staff to seek other sources of funding than those currently?

XAVIER CALVEZ: Not other than sponsorship. At ICANN meetings, we have sponsors that helps offsetting the cost of the meetings. But it's minor. Well, [inaudible] nothing's minor, but it's a fraction of the meeting's costs. That's really more cost offsetting than really revenue sources. It's not funding campaigns or anything like that. No, there's not been any.

BARRY FELLMAN: Staff's not really made any effort [inaudible].

XAVIER CALVEZ: No. There's not been any other than those sponsorships to offset [inaudible].

UNIDENTIFIED MALE: To be fair, I would think the revenue that's been generated through gTLD has been pretty significant [as a change].

XAVIER CALVEZ: Correct.

BARRY FELLMAN: I was told that that revenue could only be used for gTLD programs.

XAVIER CALVEZ: You're both correct. The application fees collected from the applicants are exclusively used to cover for the cost of the program, the [evaluation] program. Once applicants become registries, then they become contracted parties of ICANN. In the contract, they have fees for ICANN. The $25,000 fixed fee and the transactions fees like – so that's I think the revenue that Stuart was mentioning.

BARRY FELLMAN: The transaction fees, though, are not paid by the registries, are they?

XAVIER CALVEZ: No, they are paid by the registry and the registrars on behalf of the registrants.

BARRY FELLMAN: Doesn't registrar collect those funds and pay them to ICANN?

XAVIER CALVEZ: Both.

BARRY FELLMAN: Oh, both.

XAVIER CALVEZ: Sorry, I'm not hearing your question.

UNIDENTIFIED FEMALE: What about the point the gentleman made earlier about the money, the revenue you collect as a result of the gTLD program? It cannot be used for other ICANN purposes? Can you just clarify that, please?

XAVIER CALVEZ: It should be straightforward, this answer, but it's a bit more complicated.

                      We are not intending to use these funds for anything else for now. If the community develops a – let me rephrase. If the community defines other usage of those funds, if there would be any left at the end of the program, this has not yet been established. The Board has indicated

several times in the past that if there would be excess, the Board would ensure that a process is organized for the community to define with the board how the funds in excess, if there would be any, could be used. What would they be used for and how. That's not been yet defined.

But so currently, what we go by for staff in managing the funding of the program is the application fees serve for the program and that's it. If there's anything left after that, we'll discuss how to work it out with the community.

BARRY FELLMAN: The previous discussions with staff during previous years, going back many years have led me to believe that staff was going to seek other sources of funding and other communities that could fund ICANN's work. But none of that has been done?

XAVIER CALVEZ: As far as I know, and I don't have necessarily the background or the history that you have, but as far as I know, no, we have not seeked other types of funding so far.

BARRY FELLMAN: What would it take for staff to look back at those discussions and agreements that had been made in previous years and then to perhaps follow through on them?

EN

XAVIER CALVEZ: I can try to follow up internally to see whether those who may have been involved in those discussions in the past. You may actually have more information on them than I do. But I can try to look back at that. But I would actually think that formulating either requests or suggestions or a need to address that discussion in a public fashion and maybe through the Board or through the CEO directly I think is a useful exercise. I think the organization has been focused over the past few years on developing the New gTLD Program, supporting the New gTLD Program, and continuing to interact with our contracted parties or registries and registrars that of course are also involved in the program and securing the financial aspects of the contracts with the contracted parties rather than seek other sources of funding.

Having said that, I don't think there's any reason to not want to necessarily do it. I think there are some limitations, either fiduciary or just from a business standpoint that we may see to that. But at the same time, could we go and seek more funding for specific purposes or more generally? Why not? I'm not aware of any conversations that happened, but as you were indicating and they may have happened in the past. I think that subject can definitely be brought back up.

BARRY FELLMAN: Would it be possible to direct staff to look into that?

XAVIER CALVEZ: Absolutely. It would be. The way I would suggest to do that, just from a practical process standpoint is if you would submit a comment in the

public comment process of the budget. This is where we – I know we can – we'll catch it. We can formulate an answer to it. Thank you.

BARRY FELLMAN: Thank you.

XAVIER CALVEZ: Thank you. We've gone lot long over time, I think. I want to thank everyone for participating. This was very useful, very useful comments. Thank you for that. Thank you for everyone on the Adobe room. I also wanted to thank Taryn Presley, who I didn't get a chance to introduce earlier. Taryn is the reporting manager for ICANN. She arrived a bit more than a year ago. She handles budgets, forecasts, monthly reporting, financial statement reporting, and all the financial analyses that we do with her team of two people. The three of them do that.

We didn't have this function in the past at all. We were doing it about no analysis in the past. Since then, you may have seen that we produce quarterly financial statements, for example. We don't have to, but we do. Like listed companies. We intend to continue providing more information, do more work, and we have a number of things on our list. Taryn and her team are the working bee behind that. If I look like I produce this, I don't. She does. Thank you for your hard work.

[END OF TRANSCRIPTION]