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DURBAN – ICANN Finance Open Session  
Wednesday, July 17, 2013 – 11:00 to 12:30  
ICANN – Durban, South Africa

XAVIER CALVEZ:

...on the finance processes, it's going to be focused as usual I would say on the budget. [? 0:00:13] when we're ready to pass the slide. So we're going to start to talk about budgets on the of course, FY 14 budget process. We will talk about the budget approval timing.

We will talk about some changes, the latest changes the budget versus the one that was published for public comment in early May. We will talk about the SO and AC requests and process.

We will provide an overview of the public comments that have been provided by the end of June 20<sup>th</sup>. And we will also give a bit of perspective to the coming budget process that we will start, hopefully quickly, in the next few weeks and months.

Though I expect to address most of that subject in this session that will happen tomorrow at 10 on the budget process improvement session that, and I can't remember where it happens. Maya can you let us know, Thursday. Do you know in which room it happens? Okay.

We'll provide an update. We'll also talk a little bit about future financial reporting, that we would like to make sure we put in place. We've been talking about it on it in the past, and want to put a bit more comments into this subject from now on.

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

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So let's start with the budget. Next slide. Thank you. So timeline, I'll take a moment to remind everyone of something that I didn't put on this slide here, but for those of who would not know, I think probably most of you know, but for those of you who wouldn't, we changed the process in the middle of the road, early January to accommodate the implementation of our new management system.

At task, and produce the budget information as per this management system. And as a result, have modified the process of production of the budget. This slide will provides to you, just starting from the publication of the budget on May 10<sup>th</sup>, a few weeks ago, for probably comment.

The presentation that we also covered in a couple of calls to introduce it. So the public comments finished at the end of June 20<sup>th</sup>. We then published on July 5<sup>th</sup> some responses to the public comment, or the first version of public comment responses. We will produce another version of that.

Some comments came a bit later than June 20<sup>th</sup>, and notably from the ccNSO, and we will address those in the second version of the public comment responses, as well as add information to the responses already provided and then we're sufficiently comprehensive.

And some of you have shared comments in the past few days with me that lead me to think that we need to spend a bit more time on a number of those. The July 12<sup>th</sup> was this past Friday, when we finalized with the BFC, the budget figures based on – to review the changes, and we'll talk about those.

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We're at July 17<sup>th</sup>, today, so we'll communicate – we will spend a bit of time on the budget changes that I'm referring to. What we will do as you will remember, the original intent in Beijing was that he would have an approval by the Board of the budget in Durban, here. And because of the changes that I have mentioned, and to ensure – that came post-publication on the website of the draft budget, which is why it's a draft. We wanted to make sure, and I think that the BFC was very strongly in favor of ensuring that we can have a communication of those changes, give the opportunity to the community to possibly comment on those changes before the budget is submitted for approval by the Board.

And we wanted that sequence of events to be there. We debated a lot whether we communicated those changes one day, then have the Board approve the next, which is not entirely fair to providing sufficient time for people to react. So as a result, I'll start... I'll jump now to the end of this timeline here so that do a bit of a ritual planning together.

The next Board meeting is August 22<sup>nd</sup>, in order to provide and to brief the entire Board in detail on the budget, we'll need a little bit of time and the BCF will finalize the budget around the 7<sup>th</sup> of August. That specific date needs still to be firmed up, but if it's not the 7<sup>th</sup>, then it will be the 8<sup>th</sup> of the 9<sup>th</sup>.

Which leaves us, let's say, three weeks for any comments to be provided. I'll mention it, on the changes that we'll go over, as well as the SO and AC budget requests recommendation from staff that will be shared with you guys today, by email.

And we've suggested to set a deadline to receive any of those comments by August 4<sup>th</sup>, that's why I'm saying about three weeks, in

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order to give as much time as technically possible to provide comments. This is a very illegible slide, just meant to settle the stage which you know already...

This is the published version of the budget, which I will just comment at a very high level. 185 million of revenues for FY 14, corresponding to approximately, and I'll do this in big number, a bit less of 19 million in revenues for the operations of ICANN, the historical operations of ICANN.

And about 100 million revenues for the new gTLD program corresponding to the progress of revenues linked to the progress of the program. I forget to mention, and this stage, that we have a new gTLD financial session, so focused on the entire program this afternoon at 2:15. It's also a public session and any one of you is of course most welcome to participate.

And I'm hoping that you will participate. This leads to a little bit more than 140 million of costs, split again between approximately 85 million of costs in the operations and approximately 60 million of costs in the new gTLD program. We'll move on to the next slide, to focus on the changes.

Thank you. So, the changes are relatively simple. I wanted to make sure that we display here the figures, but I will comment on what those changes are in the next slide. The... I wanted to put up the updated version of the budget, so the upper part of the slide here provides the updated version of the budget.

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The middle part provides a few figures for the published version of the budget. And the lower end of the slide in orange, for those of you who can see here, represents the differences. And we'll flip back and forth with this slide, so I will ask that we move on to the next slide so I'll comment on what those changes are, and then we'll come back to the figures. It may be helpful to do that.

So we have two new elements of change that have materialized over the past few weeks, and that have been included in the suggested changes to the budget. Those are relatively, I would call exceptional, or extraordinary, in the sense that they are relatively significant amounts. They are also one time type of expenses in the sense that they're not recurring.

And I'll go directly to it, the ICANN strategy panels, that have been announced by Fadi on Monday, this is as you may recall from his presentation, a year expense is going to be a one year exercise, to help develop the strategy of the organization over the next five years.

The estimated cost at this stage of these panels, which is sufficiently recently formulated that it is still being refined, but hopefully to the slightly lower number, is three and a half million. The ATLAS II, the At-Large Summit that has been in the works in terms of formulation and in terms of communication across the Board members and across the community, has been also included and it will be submitted to the approval of the Board in August.

Or the two main changes, relative to the operations, of ICANN, and when I say two main I should say the two changes to the operations budget. That are added. So let me now come back to the previous

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slide, so that we are clear on ... You can see at the top of the slide, that line called, the third line from the top, called exceptional expenses, 4.3 corresponding to the – it's a rounding, a difference, between the three and a half million of the ICANN strategy panels, and the 700 K that I had indicated on the next slide for the At-Large Summit.

So that's what's included in that exceptional expenses line item, which corresponds to one of the differences that you see on this ICANN operations column on this slide. Let's go to the next slide, again. On the new gTLD side, there has been, as a result of two main things, a reevaluation of the timeline of the progress of the program, plus over the past weeks we have a bit more information on the number of subjects like, for example, the extended evaluation process, as well as the scope of the extended evaluation notably.

We've had also a bit more information on the objections that have helped us adapt the, or just the new gTLD program, the financials, estimates, of the new gTLD program. That also has led to an adjustment of the revenues, we will talk more this afternoon about the fact that the revenues of the new gTLD program are tied to the costs incurred on the new gTLD program.

They are working together, I would say that they are proportional. And also there is a timing adjustment that has been made to the revenue number, which is pulling forward our estimates of the revenues without changing the total amount of revenues for the program.

And those are the changes for the new gTLD program. Can we go back to the slide with the numbers? And that's the changes you can see here. The changes to the cost, I should have mentioned this earlier as

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well, the changing operating expenses also because it has an impact on how the historical cost repayment are calculated, is also driving a change on the historical cost to repay, which is the item that is in the other items line at the bottom here, or the top there.

Let's move on, and I should have indicated earlier that we will go through the entire presentation and please make note of questions that you may have, so that we can then finish the presentation relatively early and be able to go over questions then.

Let's move on. SO AC budget requests, quick status on this. Just a reminder that we had a fast track process this year, it's a bit of a misnomer to, not necessarily reviewing the requests faster, but reviewing the requests earlier in the year. We broke into two pieces, into two phases the process of approval of the requests.

If you remember the rationale for this was to allow a number of requests to be approved earlier so as to give more notice and more time for the teams involved in implementing those requests to work. Those requests therefore designed those relative to actions slated in the first four months of the fiscal year, from July 1<sup>st</sup> to October 31<sup>st</sup>.

We'll talk more about that process, so maybe with your questions later or in the budget process improvement session tomorrow. We have received... So the regular track then, the second phase of the process, has collected second phase requests. From memory, the deadline is April 22<sup>nd</sup>, but now I'm being fuzzy about that date.

They have been reviewed and a recommendation has been formulated by the review panel, and that's the recommendation that will be shared

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today, with you guys by email. We'll provide a comprehensive lists with the tables that you have seen in the past, the full list of the requests with a description, who it's coming from, the amount, and the suggested recommendation with an amount and a rationale for it.

And that's what I would expect to receive comments over the next three weeks. Which if you recall, is a step in the process that we have not done before, or inserted in the process before and we're going to try to give more time to. We had received a \$347,000 of... An estimated amount of \$347,000 of requests, the amount funded corresponds to \$372,000, it will be a little bit more clear when you see the details. Why are we funding more than what we were requested?

It's this difference is really a net of a number of requests, none have been approved for funding and of requests that we have gathered and basically, sometimes, extended versus what the request was from the organizations. I will give you an example of the past that we've connected is the travel funding of the constituencies of the GNSO, the six constituencies of the GNSO.

Some organizations had requested travel funding that didn't exist before last year. And what we did is we took that request and we granted to the six organizations the travel funding. So what ended up being funded was actually more extensive than what the request was, because maybe one or two organizations had requested it, but we replied granting that request to everyone, even those organizations that had not requested for it.

So we have done a similar thing with [outer reach 0:20:17] request for travel funding for five seats, by memory, five seats of travel funding per

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organization to allow within a given region to fund the travel of persons that you would like to bring in to your organizations.

So there is a meeting in Durban, you have in your contacts and organizations people that you would like to bring in Durban from Africa, here is the travel funding seat for that. So we have extended this across everyone. So there is a preamble to what you will see latter today.

There is \$75,000 that's attributed to that purpose. Hopefully, it will help, I think this is just taken a step forward into some actions – funding of actions relative to outreach, which obviously need to be much more the result of a strategy on outreach that's much more comprehensive and much more developed than this.

But at least there is a little bit of funding for that purpose in the responses. The implementation... So sorry. With the fast track requests granted, and this funding we are arriving at a total of about – approximately \$650,000 for the fiscal year. Which is, if you recall, at the launch of the program, we had indicated the overall envelope was in the \$500,000.

We had then thought, “Well it's then probably going to be – have to be a bit higher than that.” And we had to also mention in the matter of 600,000, again, I want to repeat that these amounts that we gave at the beginning of the process are indicative for everyone, it's not a hard number, right?

And I think the result is here of based on what the requests are, what the approach has been, we're landing on 650, it's a bit above the

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envelope, but that's not what the envelope was there to do was to give a hard limit, it's just to give an indication of what we're looking at.

The implementation of these requests upon validation will be supported by staff contact. We'll probably try to make sure it's one person, we are still trying to design this a little bit with the help of David Olive and his team. And we'll try to make sure that we'll have, ideally, one person who is going to be the point of contact for all requests.

And then aggregating, reaching out to the relevant staff as appropriate. If you have a request that is funded, that you know already how to implement with which contact, obviously that can simplify the process to contact directly that staff person. I know Chris has been working with Lynn [? 0:23:56] on the newsletters. For example, this is now an established process so this is relatively easy to put in place. Next slide.

A quick overview of the public comments provided on the FY 14 budget. We received 86 of those. This number does not include the comments from the ccNSO because it represents the public comments received on the 20<sup>th</sup> of June, and those from the ccNSO came a few days later. So it's not indicated here.

In white, you can read it, you may see your name, are the sources of those comments. In black are the subjects. New gTLD, revenue and Opex growth, Security, AtTask, reserves, multi-stakeholder, processes, compliance. You can speak to Maggie, she's in the room if you need. Not that I wanted to put her on the spot. ICANN structure, community outreach and support.

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Let's move on. It's another... This is just giving a little more statistics on these subjects. Revenue and Opex growth is on the top of the list of those comments. I received three comments from you, Steve. [OPEN MIC 0:25:31 – 0:0:25:41]

So... Yeah, please, so Steve was indicating that you have not mentioned our comments on the slide, you have not answered them, and they were sent on the 21<sup>st</sup>. And not doubting you Steve, I will look at that. We have, sorry I need to rethink. I was mentioning the date of June 20<sup>th</sup>, and that's why I'm thinking...

So anyway, we'll look. I'm glad that we're going to have a second pass at the comments, because we're going to need to take that into account... Yes, sorry.

CHUCK GOMES:

Can I just clarify one thing on the account there. You'll notice that Paul Diaz, Tim Switzer and I submitted 15 comments, and the registry stakeholder group submitted 15. The reason for that is that the three of us individually submitted what essentially ended up being the registry comments, but it wasn't approved yet by the registry so there is some duplication.

And one of the purposes of that was to try to get some of the answers earlier than after the comment ended period, that didn't work but that's a little bit – there is duplication there.

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XAVIER CALVEZ: You're taking the words out of my mouth. I was going to say that as well. The statistics were flawed. [OPEN MIC 0:27:12 – 0:27:24] Question? You don't see...

UNIDENTIFIED: This is an issue of [AUDIO TOO QUIET 0:27:36], or just initial?

XAVIER CALVEZ: I think it is both. I think it is both. And I'm thinking a little bit about it because I don't have in mind the breakdown, but I believe it is both. I will confirm. Janice, will you make a note that we need to confirm that? Thank you.

UNIDENTIFIED: Sorry, just in the interest of time, [? 0:28:00], but I think you've got a room of experts here, and you can sort of burn all the time going through this presentation. Do the others just want to jump straight in and get into Q&A, because I think we'd end up with an hour...

I've read these slides in five minutes, I was just talking to Chad and I think he's read them. Just wanted to get a sense of the room, but this isn't a big general audience, this is an audience of people that have actually, they are experts.

XAVIER CALVEZ: What I suggest to do is go quickly through then the last slide, so that we make sure we touch that subject quickly, and then we'll come back on the... So this is the number of slides that we have extracted public

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comments from so that we can talk about them further. But I think to [? 0:28:47] suggestion, we'll take that to the time of Q&As, so let's go through that quickly.

Next. Go through the slide, to the slide that speaks about financial reporting. Next. Next. This one. So, we need to do something that I don't think that has really been done, at least recently in the past of ICANN. First of all, we're going to have the audited financial statements by the end of October, by as per the by-laws usual, no change.

But we've never really done a comprehensive, and specific, and explicit feedback of how the past year had finished from a financial standpoint. We do work together on the budget, but how did we do on the budget after the fact? Is something that should be something that we do to close the loop.

If we said we were budgeting 70 million of expenses, what did we do? So this is what we will plan to do. This is, by the way, completely standard reporting in any small to large organization, the reporting on how the year has closed is not only interesting from the perspective of having the ability to audit the financial statements, which is what we do as per the requirements, but also to provide that feedback on, what are the variances between what we thought we were going to spend and what we have effectively spent?

What are the revenues that we were planning for? And how did they come? So we will also have a session on that subject in Buenos Aires, so we can have a live session. It comes relatively far after the end of the fiscal year, which is June 30<sup>th</sup>, but so that we can have an interactive session subject for the first time, we will do it in Buenos Aires.

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Next slide. We also intend on a quarterly basis, as per the work that has been done with the BFC to communicate, find updated financial information. Again, large organizations, or public organizations do that all the time, and we will do it as well.

It will provide a segment on comments, and information on trends and changes, and it will be publish. We still need to iron the communications timing and format, but I'm expecting that the document will be produced, a call will be scheduled, or an Adobe room will be scheduled, and the presentation will be put on our website, or the document will be put on our website.

That's what I'm expecting to do. We have piloted, if that's a word, this process with the BFC over the past six months, and we have reviewed to quarterly packages. We're going to continue working on the format, and we'll go ahead with this in FY 14. Next slide. That's what I thought. Thank you.

So now we can start with Q&A. If I can ask Janice and Maya to help following the – what the queue of questions are, and also maybe we can start with remote participation, if there is any questions on the remote participation. Not yet. Okay. So who is first?

CHUCK GNOMES: I beat you Marilyn. [Laughs]

XAVIER CALVEZ: So, Chuck, Marilyn, Mikey, Chris, Steve...

CHUCK GNOMES:

And I have, this is Chuck Gnomes, from the registry stakeholder group. I have three comments. I'm perfectly willing to take one at a time and rotate to other people if you would like. I want to start off with some comments that the registry stakeholder group submitted, and I thought that the ICANN response was inadequate.

What we pointed out in our comments was that in the past, in the operating plan and budget, the sources of revenue and the expenditures were broken out in much more detail by ICANN organization. We think that's still a good idea, especially with regard to the GNSO because it shows how a gTLD registrant fees contribute to the overall ICANN community.

And it also shows gTLD registrants how much of their fees are used to support related gTLD activities, seems like good information to have from your fees. It shows GNSO participants what programs they subsidize elsewhere in ICANN. It shows other organizations an estimate of the value of the services they received thanks to GNSO fees.

And here is one part of the ICANN response that I want to call attention to. It says this, "It was decided that providing such information had the potential unintended consequences of violated the principle of inclusiveness on which ICANN is based." First of all, I don't know what that means.

And secondly, what about the principles of accountability and transparency? I don't know if you want to respond to that now, maybe you just want to take it as my input.

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XAVIER CALVEZ: I do want to respond to that right now. So I think the response is poorly formulated way of trying to address the following. And there is a comment that I made... Sorry. [? 0:36:17] that I made on that comment that didn't make it through obviously, because I remember precisely this comment.

So I think the information that is related, that is mentioned in the comment provided, is what... And I want to ask information on that, is the EAG, isn't it? Is the EAG analysis? Is that what the information that was referred to? The expense arrear group? Isn't that what was...

CHUCK GNOMES: I don't recall whether it was specifically that.

XAVIER CALVEZ: Okay. Because the comment was actually designed with that in mind. And that's why I wanted the... Sorry. The response was provided with thinking that the comment was about the EAG. And that's – well, the edit that I had made to that comment to say, "We presume that the information referred to that was produced in the past, is the EAG."

And the comment needed to be made then. So I think that the attempt that the EAG was trying to satisfy of providing and understanding of how the expenses of ICANN are support – are distributed by organization to reflect the support of those organization, was entirely flawed and erroneous.

And therefore, it's not been conducted anymore. The EAG had a different possible interest, but certainly not the one of providing and

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understanding to anyone of what support is provided... Sorry. What financial impacts are relative to the support provided by each organization.

So it was not doing that. Now it's easy enough, though it was not that easy, but let's assume to say, "That doesn't work, let's not do it." The other to this comment that didn't make it through, that I made, is, now what do we do about it? The formulation of the comment that says, this is useful to know, I completely agree. There is no question about it, and we need to find the alternatively way to provide this information.

I think so that we fast forward quickly to the future, I think we have worked with the ccNSO on a methodology that provides a much more relevant and specific information. We have done that for the purpose of supporting a new contribution model for the ccTLDs that are part of the ccNSO, to the revenues of ICANN. As I know you well know.

The ccs contribute an amount that varies between a million and a half to two million dollars to ICANN today. There has been an ongoing process of revisiting this amount that was created in a little bit of confusion a few years ago. And that is, I don't know if you have seen the updates of the ccNSO relative to this subject, but it's progressing and I think that the intent is to conclude in Buenos Aries this process.

Byron Holland has mentioned to the Board yesterday that the target amount was approximately three and a half million to be contributed by the ccs versus the one and a half to two million that's currently contributed. So about doubling. ICANN staff has supported the work of the ccs by providing information.

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As per a methodology that I would like actually to replicate in order to address, or attempt to address exactly the needs that have been identified in your comments, and that are formulated in your comments relative to what is the support by your organization. And also held to your point relating expenses to revenues.

And I think we have a methodology which is imperfect because it still includes a certain amount of allocation, but is sufficiently specific that it will be speaking to people, I think, relatively well. I will present that methodology, I intend to do that in Buenos Aries with an attempt to make some strides into providing numbers with it, but at the very minimum I will provide the methodology so that you can understand it, and I will provide an example as well.

CHUCK GNOMES:

That's much more responsive, thanks. But I do want to comment. This particular comment wasn't directed at the ccNSO, we did have some other comments in that regard, but there are other organizations other too, the GAC, the ALAC, etcetera that it happens to. So it was much broader than the ccNSO.

XAVIER CALVEZ:

I didn't mean to restrict my answer to the ccNSO. I'm just saying that we developed a methodology for the purpose of a work string with the ccNSO, and we'll expand this to everyone.

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**CHUCK GNOMES:** I appreciate that. And the registries aren't saying that that shouldn't happen, that there shouldn't be subsidization of these other organizations. What we're saying in this comment is, it would be very nice to see the breakdown and you responded to that.

And I'll save my other two comments and let some other people talk.

**XAVIER CALVEZ:** Thank you. We had Marilyn.

**MARILYN CADE:** Chuck has given me an opportunity to modify my comments. My name is Marilyn Cade. I come from the business user community. This topic has come up many, many times. Registrants are of the view, and will continue to express this to the ICANN Board and to others, that the organization that we are building at ICANN is built on fees which are collected from registrants.

It takes a village to continue to support ICANN, and I'm disappointed to continue to hear the word subsidy used in any way. Now I would like to make the comment that I intended to make. I am disappointed to hear any member of the community use the word subsidy in any way.

**UNIDENTIFIED:** But I don't understand the context [AUDIO TO QUIET 0:43:11]

**MARILYN CADE:** I'm responding to the registrar constituencies that they subsidize other parts of the community.

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UNIDENTIFIED: In fairness, that was the registries...

MARILYN CADE: Sorry the registry community, that they subsidize other parts of the community. As a registrant, I'm not sure I feel subsidized, but we'll take that up later. The comment I was going to make was actually more about the detail behind the public comments. Xavier and I think the way that you've laid this out is very helpful, but – and I've read all the comments.

When I go back and look at the detail behind this, the thing I'm a little bit concerned about, and I'm not really expecting a solution right now, but the thing I'm a little bit concerned about is there are so many new staff at ICANN, that the historical understanding of some of these topics, I think we've got to figure out a better way for next year to have more of the staff, who are going to be delivering on the – spending the money, to be engaging with the expert parts of this...

The folks who show up all of the time, they follow the budget, they submit the comments, they analyze it. And so I'm just going to say one more time, that I really would prefer in Buenos Aries for us to dedicate a half day, not during the meeting, when the experts who are willing to dedicate the time, and the staff who are going to be spending the money, can work through in more detail and we can help to educate each other.

I know that's a budget item that it's something that we've talked about many, many times. So I'm not expecting you to answer it, but I think this is – it remains a gap and particularly with all the new people who

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are coming in, who are spending these big buckets of money, I think it has got to become a dedicated commitment that there is a period of time, Friday morning after or Friday afternoon before, where it's an actual workshop for those who are committed and carry responsibility within their constituency and stakeholder group, as Chuck does and other do, Chris does, to have substantive exchanges.

XAVIER CALVEZ:

So I'm honestly trying to answer though you suggested an approach to answer that. I want to make sure that I understand correctly. The outcome of whatever solution that you would like we reach, of whatever solution we would be putting in place. So the point that you're making is to enable a communication with the staff.

The staff who manages to spend... So let's take an example, outreach to be able to work with Sally or a member of her team, to understand the components of... So basically the breakdown of the funding relative to that approach with her and her staff. Is that what...

MARILYN CADE:

Okay. I'm not asking for that for my constituency. It's been my view for some time... Chuck and I, at one point, I'm telling you, we were part of a budget working group. It has been my view for some time that ownership of collegial input and comments is best advanced not by us one off selling somebody about our needs. We're trying to deal, most of us, are providing comments because we're as much concerned about governance of the budget as the amount that is spent.

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So I'm looking at it to be more of a partnership and gaining understanding, and then... And of course it will address our individual needs as well, so it needs to be representative. So it's beyond the business constituency what they were asking.

XAVIER CALVEZ:

And that's not what I assumed. I assumed that your interest was understanding the overall budget by possibly... Breakdown by function, by work streams, by subjects, with the people who know, who manage that information. So that's what you're... I didn't assume that you were only asking about the specific information... Okay. End of story.

So you mentioned Buenos Aries in your suggested approach to it. I'm trying to understand why specifically at that time, or is it... The reason that I'm saying that is, we are at the very beginning of the year, therefore at the end of another, or after the end of another, so I wanted to understand basically what type of information...

Because it wouldn't be the draft budget of the next year because it's not yet produced. You see what I'm saying? So I'm trying to clarify that question on timing, not because I'm trying to find the solution yet, but because I want to understand it...

MARILYN CADE:

Well, it's too late and I don't think any of us have time, and you probably don't have the money to fly us for a two day [? 0:48:44]...

XAVIER CALVEZ:

And what about Singapore?

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MARILYN CADE: So let's... Look, we're avoiding the fact, acknowledging the fact, that all of our new executives do not know the community yet. And so what I'm hoping to do is improve the communication [? 0:49:01] and the information exchange.

XAVIER CALVEZ: And I'm not disputing that, but what about Singapore? Is it not good timing from your perspective? Okay. So we'll pursue that question further in terms of trying to find a solution to it. I think we had then Mike who is left.

UNIDENTIFIED: Mike has left. Chris will go.

XAVIER CALVEZ: Sorry. Chris.

CHRIS: Thanks Chris [? 0:49:36] business constituency. Could you put the timeline slide back on [AUDIO INTERFERENCE 0:49:42]... I just wanted to get clear in my mind over the next couple of weeks...

XAVIER CALVEZ: Yes.

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CHRIS: Because we've had the comment period, which closed, right? The replies on the 5<sup>th</sup> of July related to that comment period. So am I right in thinking you're going to do a second reply to questions soon-ish.

XAVIER CALVEZ: Yes.

CHRIS: And that will incorporate everything to date by the 5<sup>th</sup> of August, sorry 4<sup>th</sup> of August.

XAVIER CALVEZ: Yes. So to try to address two things. Let me try to clarify, and I'm thinking the same time as what you're asking, yeah. There is the ccNSO comments that came two or three days later than the deadline, if we have effectively missed Steve's comments, then I would like to try to respond to two sets of comments as early as possible.

And therefore not necessarily waiting until the fourth or the seventh. I know it's going to end up being a little confusing because we're going to have a lot of it. So trying to respond to those two sets of comments is a minimum as early as possible. So if we can do that by the end of next week, I wouldn't mind trying to do that.

And then receiving comments until the fourth of August on changes in SO and AC budget request recommendations, which will be shared today, that I will send by email today, over the next three weeks. So the two next answers to comments would be the first phase to catch up with those that have already been provided in the past.

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And the second phase to conclude on the comments provided until the fourth. We will... What will happen is in parallel of the BFC happening. What the BFC is going to do, really, simply, on the seventh, is they are going to look at the comments collected, and they are going to say, “So are we going to validate the budget on the way it is for recommendation by the Board? Or are we amending the budget based on the comments that have been received?”

And that’s the sequence of events that we wanted to make sure is reflected. So in parallel of that happening, we’ll also provide responses to those comments. What will attempt to do, and that’s part of why there is a gap between the 7<sup>th</sup> and the 22<sup>nd</sup> of August is that we are going to try to respond to those comments provided by the fourth, before the 22<sup>nd</sup> of August.

CHRIS:

Yes, I understand that. That’s fine. Just to clarify, I’ve checked Steve’s... They have send his comments but they are not on the forum at all, so something must have gone wrong there. Although they sent a courtesy copy to us [? 0:52:45]

XAVIER CALVEZ:

Okay. And we’ll investigate what happened on that because I know that we’ve looked at the comments posted on the – I think it was on the 20<sup>th</sup>, I revalidate that data.

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CHRIS: Presumably the method that we're speaking about, you'll extend the public comment period so that will be our mechanism to communicate that?

XAVIER CALVEZ: I need to look at the logistics of doing that, and I will confirm how to provide comments and how to communicate that. But I would expect, yes, those to be public so we're probably going to use the tool that we all know for public comment even though it's an informal public comment, and a tailored or customized one. Thank you.

Other questions? Yes? Sorry. Sorry.

UNIDENTIFIED: Thank you. I didn't want to make any comment because I wanted you to go to FY 15, but I think that the point has to be made. Any... The money coming to ICANN is coming from users, because the users are paying the registrants, and the registrants are paying the registries and registrars who are paying ICANN.

So the origin of the money is coming from the users. I'm saying that since ALAC and the GAC are not paying for ICANN directly, the registrants don't want them to be funded. This is false, because who is funding ICANN are the users. And since we are all users, we are all funding ICANN.

Any money can go into the [? 0:54:49] is to make them work because ICANN is working, conducted through the multi-stakeholder model. And

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if we stop funding the constituencies, we will stop working and then ICANN will stop working. Thank you.

XAVIER CALVEZ: Thank you. I'm not sure if you're expecting an answer or a further comment on it, but I think you are making a point. Thank you. Yes.

UNIDENTIFIED: I will repeat something I've been saying since Costa Rica, and then Prague, and then in Toronto, and then now. Because I make the comment, the public comment on the same point. I don't feel comfortable with the amount estimation of the historical cost.

This is a very sensitive issue, and we need an audit of that. And I think it's easy for us to be our external auditors to make a statement. Because in every budget, in the inclusion of every budget, there is always a line of how much was dedicated to the launch of the GNSO, of the new gTLD program.

And this addition can be done, and it should be done [? 0:56:37]... The second point is the restitution to ICANN. It seems to me, from my own point of view, that the – what was in the first estimation of the usage of the budget, it was introduced an idea to put that... There was a certain amount of money of every fee paid by the applicant to finance the – their contribution to the historical cost.

I think that was a procedure that was – that could be used for the first estimation, but at that moment we didn't know how many we were going to have and [? 0:57:38] ...with 500, and we kept the contribution

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of each application. In fact, the restitution is an expense that was billed like an anticipation by ICANN.

And yet has to [? 0:58:06]... We don't have to wait for the recognition of every one of those. In fact, we're make it to appear, an amount of net assets coming from the first application, which is not true because this was expended and there is no reason from a [? 0:58:27] point of view to wait for that.

It should be applied for this year, for the fiscal year 13. That's my point. And I [? 0:58:39]... I was not satisfied with the answer that I received for my comment and I will continue to make the same comments [? 0:58:47]

XAVIER CALVEZ:

Okay. So I think your first point is about validating the total amount and having it audited. So we've talked together about the external auditors doing that. So that's what we'll put in the plan to do. It's a relatively straightforward exercise, I don't necessarily think it's a simple exercise, but it's straightforward exercise to carry out.

Just as a matter of a small comment, the amount is the result of a number of allocations over the years, since it represents basically the effort put through by the organization over the past years from October 2008 by design to December 2011. And there are some relatively specific costs and there are some costs that represent allocations.

So that's the first point that I wanted to make. The second is....

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UNIDENTIFIED: [? 0:59:59]

XAVIER CALVEZ: No.

UNIDENTIFIED: Because all the money that was expended there, was an advance by – from the [? 1:00:13]

XAVIER CALVEZ: So the historical development costs were designed to be those incurred from October 2008 until the launch of the program, which was January 12, 2012. And as a result of which the costs included in the historical costs total are those incurred from October 2008 until the very end of December 2011, which is 12 days away from the opening of the program.

That's what's been done.

UNIDENTIFIED: If you look to the execution of the [2012 1:00:56] program, in that one, it appears [AUDIO TO QUIET 1:01:04] ... and both were funded by the ICANN budget. So the date is for you to [AUDIO TO QUIET 1:01:18]

XAVIER CALVEZ: Yeah. Well I'll come back to that in detail with you because I think we need to sit down together with the set of numbers. I just want to

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provide a quick comment to the second part of your comment, and I know George would like to add it.

The historical development cost repayment, we'll talk more about it this afternoon as part of the session on new gTLDs, and we will explain the accounting principle approach that drives the recognition of expenses and revenues for the entire program including historical development costs.

Just to make sure I have as comprehensive answer before on your specific point, before the session this afternoon. No, the accounting principles do not allow us to make the repayment right away. It needs to be driven, it needs to be as much as we can pay back to ICANN, limited by the non-refundable threshold of the fees.

Because the fees are refundable, as per certain milestones across the program. And we don't have a choice. There has been three different accounting firms validating this approach for that specific reason, because there is a number of specifics of the program, and we had to do that.

But will we spend a lot more on the subject, and I know you and I have discussed this subject as about as many times that you have indicated earlier. We will discuss it further, but the position is very clear on that subject.

UNIDENTIFIED:

Xavier, I just wanted... There is 15 minutes left, George I know that you're chomping at the bit, but I wanted to respect that Robert has

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been in the queue, so I defer to Robert to say whether we're going to respond so we can get your question first.

XAVIER CALVEZ: Let me ask one question Robert, is your comment about the same subject we're talking about? May I then I ask for George to answer, and then we'll move on to your subject, if you don't mind. Thank you.

GEORGE: My comment is short. We all know your dedication to this issue. And I'm on the finance committee, we had a discussion on it, and we're going to follow through and get a definitive ruling on what the costs are, and what should be done.

But I want to support Xavier's comments about the complexity of this. And the complexity is simply an accounting complexity, because the program spans more than one year. So if you look at the program as a whole, there is no significant conceptual issue in doing what you want to do.

But I would say hold off for a while, we're looking at this problem.

XAVIER CALVEZ: Okay. Thank you George. Please. Sorry to have taken a long time.

UNIDENTIFIED: ...from Citizen Lab. It's a little bit out of order and you may want to get back to me afterwards. In your early slide you mentioned in terms of the exceptional, the cost that you're putting in the budget, and I just

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have a question in regards to reporting, and I'm happy if you get back to us later.

First of all, you mentioned that there was a one year expense for the global strategic panels that have been setup. So the question going forward is, will the reporting on the expense be just for the strategic panels as a whole, or the individual panels as a whole?

Each are on different topics and it might be good to report back on cost. In terms of Fadi's opening as well, I'm just curious in terms of the ICANN lab's that was also announced yesterday, whether that was also – that was a past budget request? Or whether that's also included in the exceptional request?

I think that it's great that it's taking place, but there is definitely some value that it's going to add, but it's also going to create some resources and others. And so, I'll leave that for you to get back to us, but I just wanted to put that as a question. Thank you.

XAVIER CALVEZ:

Thank you. So I don't have the sufficiently specific information in my mind about the second part of your question on ICANN Labs. On the first part of your question, which is how will the financial impact be reported on the ICANN strategy panels?

Our intent is that each panel will be a project in our management system, a task, which is shared publically with the monthly data with the community. So each panel being identified project in having five projects as a result, then the information associated to it will be also, financial information, will be also as per that state.

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UNIDENTIFIED: Just a quick follow up. So is it envision that the amount, if you put five million that you mentioned, will be split evenly among the five panels and so that will be the sort of details in terms of the [? 1:06:27] cost?

And again, the community would like to know if that extends after one year. It would be good for the community to know whether that cost will buff over time.

XAVIER CALVEZ: So the amount of 3.5 million will be split among the five not evenly, each panel is different, and its process are different, and it's not even.

UNIDENTIFIED: Xavier, just on that one. Are panel members being compensated or is it just the travel costs?

XAVIER CALVEZ: So there are stipends, I think, included... I want to be careful because we're getting into the details of these, which I have at a certain level of detail, but I...

UNIDENTIFIED: ...numbers, I just want to understand the principle.

XAVIER CALVEZ: I understand. And because this subject is sufficiently recently materialized, the – I know there are stipends, elements in the breakdown of each panel's cost items, but I don't remember now how

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they are – I don't have the details of how they are attributed in the sense of, is it compensation for the panel members? And who would be the panel members, will also drive whether there is a stipend, where there is not, whether there is a more specific consulting type fee, etcetera, etcetera.

So we need to go the next level of detail in these cost items.

UNIDENTIFIED:

And Marilyn is next then, and Robert, thank you. I just wanted to note that I did note that, and we'll understand better about how we can make that more publically aware.

XAVIER CALVEZ:

And the second part of your question was, is this going to continue being one year? At this stage, I will stay on the level of communication that Fadi provided, it's meant to be a one year exercise, and that's all we have at this stage to say for this.

Because there is no design at this stage that is going beyond one year. Marilyn?

MARILYN CADE:

Thank you. Marilyn Cade. I have a comment and two questions. Simple budget go, it became apparent that the then CEO had a – what appeared to be a relative amount of flexibility in proposing projects that were agreed to before there was any community discussion with them.

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That included deciding to build ICANN CERT and various other things that the community became extremely excited about. As a result of that, I sort of thought that with the Board's awareness that we began a new understand of the need of more community awareness before big buckets of money are committed.

So I'll make that observation. The question I have is about, what I am seeing in the SSR area, including in the meeting I was in this morning, which, and I think many people from the responsible side of the community, who have expressed concerns about SSR, have identified areas of unaddressed risks, in the meeting this morning and yesterday in the business constituency meeting.

The BC representative to the SSR review team, reminded all of us of the identified concerns in the SSR report, which have not been fully addressed. Studies are going on, on this date and delivering the studies that can be clearly analyzed by the community that will be most affected by the risk that are identified.

And certainly for my perception and engagement on this topic, I think there is a significant concern about the need for, I hate to use the word awareness and communications, but possibly even to begin to build remediation solutions to those who may be affected by these risks.

And I can't find in the budget any awareness of that need, and this is not a put something on the website saying be aware that the applications may no longer work and you may get phone calls of complaint about broken internet in your web host, or your ISP, or your whatever.

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I can't find any information in the level of detail in the budget, but certainly there is enough concern being expressed that the need to build... The need to take this into account earlier rather than later, I don't think that it cannot appear at some point in this year's budget.

And I would expect that an extraordinary amount, as much as 3.5 million, might be needed to begin to build these kinds of responses. This is to me, and I was instrumentally involved in engaging a trade association in the United States to develop an awareness campaign on Y2K, to address the business users.

It's a long term, difficult, time consuming effort to reach the highly distributed set of folks who are going to be affected. And who may have to be coached in what to do. So do we have the ability to add another 3.5 million later, before the end of this fiscal year if we need to?

XAVIER CALVEZ:

So the fiscal year has ended, but in the budget. Yeah. I think this is a comment that you should make in the next three weeks that are left. I would encourage however that in order to be able to provide the first answer to your point, which is I think about understanding what is already in the budget relative to the subjects that you've expressed concerns about.

I think there would be a first discussion that needs to happen with the combination of Patrick Jones and Jeff Moss to understand that.

MARILYN CADE:

I started that.

XAVIER CALVEZ:

Okay. Thank you. And from there, then it would probably be easier to, or easier at least possible, form a late specific comments and requests as part of the next three weeks. I can only think it's a little bit late in the game for us to make significant changes like this to the process, but we can consider, and we should.

Yes.

UNIDENTIFIED:

Hi. I guess I would challenge your last statement there Xavier. I don't think it's ever too late to make changes with regard to security and stability. So and probably you didn't mean it exactly that way, but I think Marilyn raises a really important point on an issue that's looking like that it's not going to be a trivial expense.

Now back to the last two comments and I'll make them relatively brief. The registries noted in our comments that there was \$3.6 million left over after expenses and, compared to the projected revenue. And I found it rather interesting that we found a way to spend it, 3.5 million that left about 100,000 for security and stability expense that weren't there.

But the main point really that we made in our comments was just because we have money doesn't mean we have to spend it. And what we've seen over the last many years is that the budget keeps growing, keep collecting more money, and we certainly find ways to spend it.

Some of those ways may be legitimate, the strategy strategic panels may be legitimate, I'm not talking about that. But I think somewhere along the line we need to become accountable to the registrants, and

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I'll add on what Tijani said, I agree with you, users are a key factor in there.

Rather than just increasing fees that flow down to registrants and users, at some point, we probably ought to be looking at reducing those fees, and that's a responsible action. Now changing subjects, and you heard this one yesterday because you were in the board and registry stakeholder group meeting, and you'll hear it again tomorrow in the planning meeting, but I'm really concerned about the timing of the budget and operating plan process for next year.

The strategic planning efforts going on are great, it needs to happen, but I'm really fearing that we're going to come to the beginning calendar year 2014, and we're going to say, "Well, we're not done with strategic planning, so we're not going to be able to give the detail that was promised early in the cycle so that we have time to adequately comment, and give the Board time to review the comments so that meaningful changes can be made."

And I'm going to keep harping on that because I really think it would be a terrible disservice if we repeated what happened this year. I fully understand why it happened this year, you've been very clear on it. I understand it. But let's not let that happen next year.

XAVIER CALVEZ:

It's related, Tony let me let you make the comment, then I'll try to...

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TONY: Just to say that we, the ISPs, we already made that comment, exactly the same comment. And we called for was to start that activity in Buenos Aries. We don't think it can be any latter than that, it has to happen now or what's... Or the point you made Chuck, is exactly what's going to happen again.

There is no other way.

XAVIER CALVEZ: And for clarity, the activity – can you expand a little bit on what the activity that you would like that is started in Buenos Aries? Please.

TONY: The discussion on the fit between what's coming out of the strategic plan, and there are certain elements of that that can be advanced then, that can start the budget build and involve the stakeholders. I mean, that's the piece that has been badly missing this time.

XAVIER CALVEZ: Well, I would correct you. I think it's been badly missing for a long time.

TONY: Agree.

XAVIER CALVEZ: Okay. So those comments are well noted and...

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UNIDENTIFIED: ...dive into that a little, you know, it's worth planning now...

XAVIER CALVEZ: Sure.

UNIDENTIFIED: So that makes perfect sense what they're suggesting. We meet three times a year, as early as possible, to have a more in depth discussion amongst those experts that are in this room that are focused and understanding the budget in depth.

What day would suit? I mean, let's just talk about the practicality. It's probably Saturday, the beginning of the week? [? 1:19:17] week to find out? Does that make sense when you tell me...

MARILYN CADE: So this is Marilyn Cade. So this goes back to my suggestion that we hold the meeting. And I know, I have to move away from [? 1:19:34]... Let me get up and move to a safer microphone. But I really think that it has to be the Friday afternoon, or those of us who...

Tony and I split ourselves away from the GNSOs working session on Saturday to make it Saturday. But we've got to do it. And we've got to be in a room with the experts, and I'm not saying there can't be observers. Got to be in a room with the experts, and we need people like Sally and others who are going to be spending this money, to be slogging through it.

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They need to be in the room and listen. I saw that we have another Board member, two who have just joined us. But this connection has got to be made, and the community is willing to invest the time, we're killing ourselves right now.

UNIDENTIFIED: So it sounds it needs to be quite structured, it might be a day that we're going to go through... I just wanted... It would be worth thinking a little bit about how you would structure that time.

UNIDENTIFIED: I think a half day would do it, Bruce. But the point has to be... Well, one of the reasons I'm against doing it on the Friday is I think I'm really worried we're going to lose people, important people... [CROSSTALK 1:29:49] So I think you could do it on the Saturday, but the one thing I'd be very careful to ensure, if you're going down that path, is the point Marilyn made.

We need the right representatives there from the ICANN staff, and we need people like Sally, we need people like David to engage. So just we really do get the [CROSSTALK 1:21:07]...

...get together like people in this room, you all know each other, why don't you get together with a proposal and then...

XAVIER CALVEZ: So, you guys, I don't want to get too far ahead of implementation before we design a little bit and think through what we want to achieve.

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I think it's becoming more clear, that subject, this stemmed from the timing of strategic planning, output, and budget process being...

No I know there are different things, but nonetheless, the link between the two and what needs to be done from a communications standpoint about the input into the budget, I think it's related as well. And we'll need to think a little bit through it more.

The panels have a one year span, so the recommendations from the panel from the strategic standpoint will come at the end of the process from that next year. So we will have to have a planning process, that includes a strategic discussion and exchange in the sense of what you guys are talking about, that will need to happen in the timing that we just discussed, while the panels are working by the way.

Because the panels will be working for a year. So we're going to have to have a strategic approach to the next budget process that will need to include this. Marilyn, we are actually taking the room for a Board meeting that needs to happen.

So I think we'll meet, we'll have opportunities and we'll continue talking about this subject. But we have to now close this session. And there is a lot more design that we need to do about, I think, this part of the process. So but the timing issue overlap is very well understood. Thank you.

Thank you for participating. Thank you for those Board members that were here. Thank you Bruce and George and Sebastien. Thank you.

[ END OF AUDIO ]