

Juan Ojeda:

Good afternoon, everyone, and thank you for joining us here for the presentation of the Fiscal Year '12 Operating Plan and Budget. As most, if not all of you may know me already, my name is Juan Ojeda and I'm Controller with ICANN. The other member from staff is Miss Carol Cornell who will be helping us with remote participation.

And we'll go through a few slides, I won't regurgitate what's in the document that was posted on the 17th of May, but we'll go over some high level items and then we'll open it up for some Q&A time. If you have any questions along the way please feel free to stop me and we'll address them at that time.

So, we'll take a quick look at the transition, some things that have transitioned us from Fiscal Year '11 to Fiscal Year '12. Some of the things we're taking are investments of internal programs. Specifically, I can speak to it in regards to finance. We are undergoing an implementation of a new accounting and financial reporting system called Microsoft Dynamics, previously known as Great Plains.

So we're very excited about that as a response to communities request for more detailed information and more supporting schedules. We're really looking forward to this new tool to be able to enhance the reporting, both internal to staff departmental, as well as to all of the ICANN community.

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We're also making continuing advances with the gTLD Program with development finalization as well as building up the ICANN operations readiness to ensure that ICANN staff is adequately prepared to handle the influx of new activity. That's expected to come along in the next months and years.

We have also got a growth in increased number of initiatives, which we'll cover in a later slide. And also the Operating Plan and Budget will be capturing as well as some unexpected and some more recent costs due to the Review Groups and the Working Groups, specifically with the ATRT.

As well as another change that we had between Fiscal Year '11 and Fiscal Year '12 was taking earlier and more active input and participation from the communities. We thought that it's crucial and necessary and we'll go over some of the enhancements that we need to take place for future consideration.

And again, going over the enhanced approach to the budget process, how every member of the community under the multi stakeholder has a say in the development of the budget process. So, although we took the first steps in Fiscal Year '12, we look forward to continued involvement from the community in future years.

A brief overview of the timeline – November we initially had kickoff meetings with the SOs and the ACs as well as the stakeholder groups within the GNSO. As well as meetings during the Cartagena meeting, going over the process and how we would

entail. We posted the initial framework of the FY'12 Budget by the 17th of May, opening it up for public comments. And those comments were synthesized and posted in conjunction with the posting of the draft budget on the 17th of May. We're also in the process of synthesizing the feedback on that. we've had that summarized recently and we're going to go ahead and post that as well very shortly.

And on the 18th of June, the BFC recommended Board adoption with further discussion. So we're still in that process for Board adoption, I believe by the Friday. Yes Marilyn?

Marilyn Cade: You didn't close the comments until the 17th of June?

Juan Ojeda: That is correct.

Marilyn Cade: And we were told in Cartagena that we could submit requests up until the 17th. So between the 17th, you synthesized the feedback up until the 17th of May, what about any feedback after that or maybe there was none?

Juan Ojeda: Two things – in terms of actual requests through the template that was provided and through the formal submission of the controller

at ICANN.org there were no submissions submitted via that route during the month of June.

Chris Chaplow:

Chris Chaplow from the BC. I think this is where I at least and getting a little bit confused and I think most of the community has. Because on the slide in Cartagena, it's not the one up there, but there were three enhancements to the process – the first one was the timing of the strategic plan, the second was the advanced opportunity for SO/AC comments, and the third one was the support services.

Putting the first one aside just for now, all the, or most of the constituencies applied for support services bits and pieces or whatever. Perhaps the more important was for the community to be able to make some of the large advance requests that we didn't have time for in the process in FY'11. But that seems to have just got lost.

In the BC we actually put in for, or we made comments on compliance on WHOIS and on, I forget the third one now, but anyway, the comments then seemed to find their way into the support templates. And then were responded to as though they were support requests and they never were.

So perhaps there should have been two separate sets of templates or, I don't know if you're saying we should have just made the first ones just via an email or something like that. So I think that second objective has just got lost. And you can respond to that

now, but what I will say just to add to it, I think it's a good idea. I think it didn't work in FY'12 and we should definitely give it another go in FY'13.

Juan Ojeda: Thank you.

Marilyn Cade: I still have a question.

[background conversation]

Chris Chaplow: Yes of course we submitted comments on the 17th, yeah.

Juan Ojeda: Okay, so a few points and thank you for that. So, the intention of the template in this initial phase was to formalize requests for additional budget dollars specifically pertaining to the constituency groups, to the stakeholder groups. I did note that through the BC it was also used, in essence, to provide commentary, to provide input into the overall budget, if you will, by formally requesting that more increased resources be funded into compliance, for example, as well as the WHOIS study. So for the sake of completeness and transparency we included those on the list of the table of SO and AC requests. Those in the past were usually submitted through

public comment, but since you did use this vehicle we included that. So in regards to the submissions via the template, those were open for consideration up until and including the 17th of June. So under that vehicle there were no recent proposals submitted by any SO and AC or a constituency group.

The other item, or the public comments that were submitted on our website, most of them were submitted on the 16th and 17th of June. Those have been synthesized and they were summarized and presented to the BFC, the ones that were received at the time; as well as results of phone calls that we had and specifically we had a phone call with the Business Constituency and we noted this reconsideration request, if you will, from the Business Constituency. So this was properly communicated to the Board Finance Committee and between now and the approval of the budget there are still some more discussions to be had.

Steve Metalitz:

If I could ask a question as well? This is Steve Metalitz from the Intellectual Property Constituency. I certainly agree with some of Chris's concerns and the concerns he expressed, but the fact that the comment period closed on the 17th of June and then the Board Finance Committee met on the 18th of June and recommended that the Board adopt the budget certainly does raise the question of how the Board Finance Committee was informed of and responded to the concerns that were raised in those comments.

Our constituency filed comments, the Business Constituency filed comments, several outside groups filed comments – and just because the timing was so tight here, which I think was totally contrary to what we expected after the Brussels meeting. We expected actually that we would have more opportunity for input into the budget. We had much less this year than last year.

So, since we've been joined by three Board members, two of whom are members of the Board Finance Committee, I guess I'd like to ask them how they were briefed. Did they review the comments and did they have any responses to the comments that came in and how did that process work during the – I don't know what time you met. Did you meet here in Singapore? Okay.

So probably you may have met before the end of June 17th in much of the world, or at least some parts of the world very close to it, so I'm just wondering whether you think that's a satisfactory arrangement to get comments in and vote within probably '12 hours, maybe six hours. And now it's been recommended by the Board Finance Committee and we know realistically there is no way to change this budget. So, I would just welcome comments from members of the Board Finance Committee on that.

George Sadowsky:

There was a May meeting which was shoved around and postponed, I think because some of us were on travel schedules and so on, and what happened was things just got jammed up. No,

it's not satisfactory, you're quite right. And I'm not sure why it happened this time, it just did.

Chris Chaplow: Can I just ask what time did the Board Finance Committee meet; which day?

George Sadowsky: My memory is full.

Male: The 17th at 8 am local time.

Chris Chaplow: Friday the 17th? No, Saturday the 18th?

Male: It was a Friday; no it was a Saturday the 18th at 8 am.

Steve Metalitz: So that was 8 pm in East Coast, 5 pm in California on the last day of the comment period.

Chris Chaplow: Yes. BC comments went in at 3 am. That was within time.

Akram Atallah:

I want to make one comment. Yeah, we know that the comments are always trouble because if we set up the date for our purposes then we have requests because it's not 30 days or 15 days or whatever. Then if we do the reverse there is comments. My point is more about why you think we can't change the budget. I would like to challenge you.

If you have something so important from your point of view that the rest of the committee can abide it, I would support you. I'm not sure that we will be able to change the budget, but I don't see any reason why not to try. And don't take us, it's a done deal, it is not. If we have good reason to change it I will personally do as much as I can to change it. And I have some concern with the current budget and I am still working on that, trying to make changes. I don't know if I will succeed, but don't take as it's done, it's done. Thank you.

George Sadowsky:

I'd like to resurrect my recollection of what happened and believe me it gets harder as you get older. And I'd like some corrections from people here who share it with me because I'm not sure I'm right. We looked at the budget in May and at that point we were told that there were something like, correct me here, like \$79 million worth of requests if you included all the constituency requests the – \$73 million, sorry – and the revenue estimate at that point was \$67 (million).

And let's see if the minutes of that meeting have been published. We had a discussion about whether, to make it very simple, whether we should run a deficit or not and finally decided not to. And the vetting of the various proposals from the constituencies was done by staff. I don't believe that we saw any of the proposals. We saw a list of the proposals; we did not see any comments related to those proposals. Am I right? I think so.

So, what we saw on the morning of Saturday June 18th here in Singapore was the fact that three requests for reconsideration had been filed. And I don't remember what they were, but they were all in the five digit range I think. And the question was, was there money for them. And we discussed at some length where that money could come from assuming that the proposals would seem justified. And we found nothing at that time, although as I recall, there were some loose ends where money might become available. We did not see any description of the requests or any justification of why they were put in for reconsideration. Does that coincide with your memory Sebastien?

Female:

The BFC recommends the Board adopts the FY'12 Budget. There will be a public forum. Certainly the BC is asking to have the FY'12 Budget on the public forum. I'm not sure that it will make it to the list since others are submitting questions as well, but that's Thursday afternoon. And I guess, not to debate this, but to reinforce the challenges and I had mentioned to Akram and to Juan, the unfortunate experience that the IPC and the BC and the

ALAC and NCSG felt they had had in Brussels about this whole issue of process and timing and commitments that things would change.

I think we've got a gap to solve, but you also have a presentation you need to make to us which has other content information in it. So I need to at least park how we're going to deal with that gap, which we take quite seriously, of how we're going to affect the budget, how we're going to be helpful to you, how we're going to contribute. It is about the entire budget, not just about our reconsideration requests.

George Sadowsky:

May I continue my presentation? One of the things that came up in our discussion on Saturday the 18th was the issue of well maybe if a constituency files for reconsideration of a request than there should be, is there an option for ICANN to say okay we allocated you so many dollars, what are you willing to give up. In other words, do you have flexibility over the choice of things that go in the budget? And apparently the answer to that right now, although I don't think it was ever explicitly said, was no.

That a freer form of dealing with the budget would be to say okay you have so many thousand dollars and we know that it's less than you want, you choose what you want to implement. My sense is that that, with certain controls, would be a very flexible way of dealing with issues like this. You might argue about the amount but not about the priorities.

Steve Metalitz:

Thank you; Steve Metalitz. Well I'd like to take up Sebastien's suggestion and ask the Board Finance Committee members for their reaction to the proposal in our IPC public comments that one third of the \$18.7 million surplus that will be generated in FY'12 because of the new gTLD launch, which was just approved, should be allocated to contract compliance activities in preparation for the new gTLD rollout. This whole reconsideration thing is irrelevant from my point of view.

We're not in here for pork barrel. We're not trying to get more for us. We're trying to help give our views on what the priorities of the organization ought to be. So that was our proposal and I guess I'd be interested in what the Board Finance Committee thought about that and how that's affected by the decision two hours ago to adopt Chapter 7 of this budget. I assume that is adopted Sebastien because the Board just voted to adopt Chapter 7 of this budget didn't they?

Bruce Tonkin:

Just to make sure I'm hearing you correctly – the budget surplus? Why is there a budget surplus? Certainly in the next '12 months I can't see – maybe there's some funds in advance of being spent. It sounds a bit strange. Why would there be \$18 million as a budget surplus?

Steve Metalitz: Well I'm looking at Figure 7.2, which shows an increase in the net assets due to the launch, of \$18.7 million.

Bruce Tonkin: Can you comment on that particularly, I think that needs to be clear, that doesn't sound right.

Steve Metalitz: Could I just finish Bruce, my response to you? I think it's spelled out in our comments that the already separate line items for recovering historical development costs, for what you expect to spend in FY'13, for the risk and if you take all those out you still have \$18 million. That's our view but maybe we're mistaken.

Juan Ojeda: Thank you. There have been some adjustments to that schedule and they'll be included in the adopted budget. But it's primarily, Bruce, having to do with the \$12.5 million.

Akram Atallah: Just let's clarify that there is no surplus from the new gTLD budget, but as you move some of the costs that were in the planned budget without the new gTLDs to the new gTLD, you're core functions of ICANN, if you want, have a surplus. Not the new gTLD budget has surplus because the new gTLD budget runs, the funds that you get from the new gTLD will run in FY'12 as well as

in FY'13. So the funds that you get from the applications will have to sustain the application processing for FY'12 and FY'13.

Bruce Tonkin: That's what I was wondering. It's a difference between a balance sheet entry and an expenditure commitment. Because you're getting the funds in advance, which is the 185, but that won't all be spent in – because the applications don't close until April. The 185 is not going to get spent between April and June.

Steve Metalitz: Maybe it would help to put this Figure 7.2 up on the screen so I can tell you what I'm reacting to because there's a line item in that in the last column of FY'13 processing expenses provisions. So you're going to spend \$17 million in FY'13; that's already accounted for. You're putting \$30 million aside for risk; that's already accounted for. Your historical development cost – already accounted for. So I'm at a loss to understand what this \$18 million figure is.

Bruce Tonkin: As am I because it might be a presentation issue. The directive here is that it's a cost neutral program basically, so the fact that there is some \$18 million left over means there is some accounting error there.

Steve Metalitz: Okay. Well now I see the numbers have changed and it now looks like \$9 million.

Akram Atallah: Well let's try to understand. First there was a slight change from what's in the draft and what was accepted by the Board Finance Committee. And that change has been in the cost of the pre-launch. We put it all in the Fiscal Year on the new gTLD but the because of the way the community agreed on paying back the historical expenses, the first half of the year before we started accepting applications was moved back to the core function of ICANN.

So you see that the \$3.932 (million) was moved back to the core function instead of the entire \$6.185 (million) moving to the new project, to the new gTLD. We count now from the date of starting accepting applications and everything before that goes back to historical. So it's just a bucket where you count the expenses that has changed. So if you look at the New gTLD Program you will always see that the net change of assets is zero there for the New gTLD Program. And the reason there is zero net change in assets is because it's a program that's designed to pay for itself.

Steve Metalitz: Could you then explain why ICANN has a net change of assets in this figure of \$9 million. \$158,000 if there is no gTLD launch and \$9,058,000 if there is a new gTLD launch.

Akram Atallah: Okay. So the difference between the two is that in the new gTLD launch out of every \$185,000 application there is \$25,000 that's dedicated to paying back the historical expense. So you see that there is a \$12.5 million that gets added back into this program. So that's positive for the expense. And also, instead of having \$6.185 million for the new gTLD expenses, it's only half of it now. So there is less expenses and there is revenue coming back to the core function because of the historical expenses.

Steve Metalitz: So is that \$9 million asset available to ICANN to spend?

Akram Atallah: The \$9 million is a change of asset, it's not necessarily cash. Okay. So yes, because if you look there will be depreciation in other things and they are not actual cash. But the \$9 million is a surplus and normally what we would do with this is at the end of the year we review the cash position and that's when we decide what goes into the reserve fund from that amount.

Steve Metalitz: Okay, the text of your budget does say that the reserve fund comes out of the historical recovery line item, but you're saying it would come out of the net assets?

Akram Atallah: I'm sorry. Last year and the year before, there was no historical development, but any surplus that was there was actually moved to the reserve fund.

Steve Metalitz: Page 57 of the budget says that "recovered historical costs included in the application fees" that's what goes into the reserve fund.

Bruce Tonkin: That's correct. If you're talking about change in net assets, "net assets" is inclusive of the reserve fund. So that net asset figure is inclusive of the reserve fund. So if you are paying back money into the reserve fund, in net asset terms the net assets will go up.

Akram Atallah: Sure. If you look there is a net asset improvement in there somewhere, investment income of \$2.6 million. If that income doesn't happen because the market collapses or something, that \$2.6 (million) doesn't happen; so this is net of everything.

Bruce Tonkin: Yes. The net asset position is net of everything. Now Steve, you could decide that, and this is the sort of thing that's getting, has been debated a little bit, but you could decide that we are not going to pay back the historical costs we're going to basically just assume the reserve fund is at this level and over the next few years we'll gradually build it up. That's a choice you could make.

But the way it's been budgeted for is to say for the last couple of years we've been spending money out of the reserve fund for the new gTLD development and we're paying that money back into the reserve fund. Another aspect to be aware of is the \$2 million that was approved today is likely to come from the reserve fund and that would, in time, get paid back.

So I guess one of the things that's a little complicated in the presentation of this is you almost need to show the reserve fund and how that's changing and what are conditions and approach is around the reserve fund. Then any other asset, up or down, almost like a separate column and then what are P&L. So the P&L is the number there which is your operating income loss and definitely you will have a surplus.

I can also argue accounting wise, the way I would account for it is I wouldn't be accounting for that as revenue, by the way, because that's cash. Actually revenue is lower because if you're using accounting that I'm familiar with – I don't know what accounting rules you're using...

Akram Atallah: It's a loan repayment right? It's not really, but...

Bruce Tonkin: Yeah you don't count that as revenue.

Akram Atallah: That's why it's below the line.

Steve Metalitz: Well I just would say that the budget we commented on says, on Page 57, "When the New gTLD Program is launched, some portion of the recovered historical costs including in application fees, will be used to increase the reserve fund." So I drew two conclusions from that - one was that that money was coming from the line item that's listed there; historical development recovery. Well that's already accounted for.

So you still have a \$9 million, under this one, it was 19 when we commented or 18. You still have \$9 million in net assets. Second, I accept that some of that could go into the reserve fund; that would be a decision that would be made. Our point was that the fact that this budget provides zero dollars for contract compliance expenses or investment due to the new gTLD launch is, we think, a mistake. And therefore...

Akram Atallah: But that's not correct.

Steve Metalitz: Excuse me. I understand that you have money in there for contract compliance, you have that even if there is no gTLD launch and I'm not talking about that. I'm talking about in addition to that....

Akram Atallah: There is additional.

Bruce Tonkin: ...to identify what the additional funds are. So Steve you're asserting, and I want Akram to be able to respond to you, but you're asserting as part of the New gTLD Program there is no increased funds available for contractual compliance. Is that your assumption of understanding?

Steve Metalitz: Yes. Due to the new gTLD launch – the increase that's in the budget is there even if there is no new gTLD launch.

Bruce Tonkin: So Akram do you want to respond to that?

Akram Atallah: We have an increase in compliance in the current budget regardless of the new gTLD because the community has been very vocal about improving the compliance. And we've added resources as well as allocated more dollars to the compliance function. When the new gTLD launches there will be even additional resources as well as additional funds allocated to compliance based on the compliance teams requirement to meet the demand of the new gTLD.

That demand has been measured by applications because for the compliance team, they look at it from the perspective of depending

on the number of contracts that are done they will need more or less people. The key here to remember is there will be no contracts executed in FY'12. Therefore the compliance team is just ramping up slightly in the case of new gTLD in FY'12. But we forecast that there will be even bigger demand for more people for compliance in FY'13 when we know the number of applications and how many additional...

Bruce Tonkin:

Yes. You need to be aware, I think, Steve, so that on the revenue side, there's no gTLDs going to be in place for this financial year. So from the first of July to the 30th of June 20'12 there's no new gTLDs.

Steve Metalitz:

Right. We understand that and that's in our submission. And our concern was that you're going to be, at some point in FY'13, there are going to be many, many more contracts.

Bruce Tonkin:

Exactly. So there's new revenue against that. So what you've got on this line – I think what you probably need to be seeing is a three year view of this and that might help. So in the next financial year, which is first of July 20'12 to 30th of June 20'13, there is a fee per gTLD agreement of \$25,000 per agreement. And you would expect a fair portion of those fees to be going into I guess administration of those agreements and contractual compliance.

So what you should see in the following financial year is new revenue as opposed, completely separate from application fees. And then against that new revenue should be an increase in the compliance function.

Steve Metalitz:

I understand that. I think that reflects a reactive and passive view of contract compliance. We think contract compliance should be gearing up now for this and should not be waiting to see how many applications come in and waiting to collect the \$25,000 from each applicant sometime in Fiscal '13.

So that's our point and I guess I would like to ask, although I know Chris has some concerns too, how much will be allocated from the new gTLD launch, from the right hand column for increased contract compliance in FY'12. Right now I think that in this document the answer is zero, but we would encourage that the answer should be one third of that sum.

Bruce Tonkin:

That \$9 million, that would a third of which sum would go in the reserve fund.

Steve Metalitz:

Pardon me?

Bruce Tonkin: Bear in mind that 9 is inclusive. So the reserve fund has been spent down so the reserve fund is going to go up by 9. I just want to understand what you're saying. You're saying from the reserve fund we allocate – or we don't put some money in the reserve fund instead we spend it on revving up compliance.

Steve Metalitz: Well I don't know how much you're planning to put in the reserve fund. If you put a third of this into contractual compliance you still have two thirds of it to put in reserve.

Bruce Tonkin: Yeah, I agree. I just wanted to make sure that – it's not like there's some surplus. So what you're saying, and it's a valid argument, you're saying rather than put it all back into the reserve fund, spend some of the money in ramping up compliance in let's say the first six months of next year because you'll need stronger function. The way I'd argue it is you should gain experience in .com where all the compliance is actually happening.

And from there you could apply it to new TLDs so it would make sense to ramp up our team and we could allocate some funds, instead of putting it in a reserve, actually spend it. Just as we've done, as we are doing with the applicant support. It's a conscious decision that would be negative on an operating basis, but we're going to actually take out of that reserve fund for that. We could pick some number, maybe you suggest a number, but "x" dollars

goes into ramping up the compliance. I just want to make sure I'm understanding you.

Chris Chaplow:

Chris here from BC, just to come in really quickly. I think Bruce and Steve have really overtaken what I wanted to say and it's exactly where we were headed. But just to remind us that the increase in compliance that's in the budget is bringing us back to the 15 staff that we were a couple of years ago, which is what we asked at the public forum and Rod was surprised and so oh yes, that's right, we'll do that. And that's what's there. So what's in now is not for the gTLDs.

Bruce Tonkin:

But you said there was some increase in budget for this financial year so how much is that?

Juan Ojeda:

Yes, and we can certainly provide some more detail for you, but the \$3.973 million that you see up there for ICANN Operations Readiness includes ramp up costs for increasing contract compliance.

Bruce Tonkin:

So how much then?

Juan Ojeda: I'll have to circle back.

Bruce Tonkin: So I think we need to get back to, particularly by Thursday, you need to get some information back to Steve on what is the change in the next financial year with respect to budget and also probably FTE head count because like I said helps you more than necessarily dollars. In other words, how many people have you got in compliance today, as of 20th of June, how many do you think you're going to have in compliance by the 30th of June 20'12; so just a head count would help I think, help the community understand.

And then what's the change in expenditure for that period, number one. Number two, if you can give an indication of using your budget estimate, let's say there were 500 new names just as a budget estimate, what potentially would it look like in FY, in other words, first of July 20'12 to 30th of June 20'13. Would that assist; if they provide those answers to you?

Steve Metalitz: Yes, I think that would assist.

Bruce Tonkin: So that's just a fact of where we are and then you can say it needs to be more, but at least we understand what's in there.

Akram Atallah: So just to confirm that. We actually have done this exercise with every department. We asked them to provide what their resource requirements would be to support the New gTLD Program based on, I think, 100 applications, 500 and 1000 applications. And we have the head count that is required by every department for supporting that. But I want to also caution that compliance is not only about head count. The plan is to review how we do compliance, look at tools to improve productivities, things that we can measure so that it's not only we throw more people at it.

Bruce Tonkin: But it just gives some indication of the level of attention you're putting into it. But I think that's also a fair comment that just processes and approach can be as effective as throwing people at it. Would you agree? George?

George Sadowsky: About a half an hour ago Steve you asked a question and you didn't get an answer. And what you asked was what does the Board Finance Committee think about your suggestion to increase compliance by a certain amount? The answer that I'm going to give you gives me pause and a bit of disquiet, as it might give you pause; the answer is I never saw it. And I'm wondering if there is something, I don't know if other members of the Finance Committee saw it, but if we didn't, should we have. I think this is the kind of thing that staff takes care of and I'd like to hear some discussion about that.

Bruce Tonkin: So understanding process here Steve, the Finance Committee normally meets on the weekend and reviews a budget and accepts that, but there's also public – the vote doesn't actually happen till Friday and there's public comment taken as there is on any of these things and the Board Finance Committee would be listening and talking to staff about that and could make recommendations to the Board usually on the Thursday afternoon when we have our, or Wednesday afternoon, whenever we're having our workshop to make adjustments to that budget. So the budget doesn't get approved until Friday; that's the process.

Steve Metalitz: I understand that Bruce, but this is exactly the situation we found ourselves in in Brussels, which was that it came, the budget wasn't revealed until the last minute. There was a public comment period. I'm not going to get into all the details of what happened then, but the idea that major budget decisions would be made based on discussions in the corridor during an ICANN meeting doesn't sound to me like really sound budgetary and planning policy. So we were hoping to get that changed this year. And I think, from our perspective, that that has been a total failure.

Bruce Tonkin: I accept that. So what would you, just to be clear for me at least so I can pass this on to others, but what do you think the process

should have been? Typically a budget is posted – when was the budget posted?

Juan Ojeda: The 17th of May.

Bruce Tonkin: So the budget's been posted for a month and then the Finance Committee – so there's a public comment period on that budget?

Juan Ojeda: 30 days.

Bruce Tonkin: And then the Finance Committee considers that in its meeting on Sunday. So, just explain what the change in process you're seeking Steve? I'm not understanding when you're saying you're only seeing the budget just now.

Steve Metalitz: Well in past years we saw a more detailed budget earlier in the process. And I don't have the exact dates here, I'm looking back through the comments that we've made over the past years, but I think the improvement to the process would be a budget with at least the level of detail that was included in the May 17th budget, earlier. And I think it actually should have been a higher level of detail, I know Chris has done some analysis on that. But the fact

that up until May 17th we really had no idea, I mean compliance was not even broken out in the framework document that we...

Bruce Tonkin:

Yeah. Because I think what I've heard in the past is what you should be expecting perhaps a little earlier would be the previous financial numbers in these different categories you're talking about; let's say includes compliance. And then the new proposed budget would show the differences and then you'd have a look at those. Just bear in mind this is iterative.

So whatever you see was set up six months ago, would just be iterative, but hopefully it gives you an idea and you understand what's been added in; maybe things you've asked for. And what hasn't been added in; there could be things you've asked for that haven't been and you have an opportunity to put your position on those.

I think having listened to the Finance Committee discussion on Sunday, and I know George and Sebastien can confirm, one of the questions the Finance Committee was asking is how do you prioritize all these requests. The Board Finance Committee can't sit there as a group and try and make decisions on, let's say it was 50 requests, 5 requests from each bit of ICANN. So we do need the staff to be using a process in how it prioritizes and we need to be transparent in what process they have used.

And the other piece of feedback I've heard so far is being able to give feedback back to you to say why something wasn't included.

So it might not have met some criteria or, an example that Akram gave us on the weekend was that each group was seeking money for outreach. When you multiply 10 groups each wanting \$100,000 that's a million dollars. Maybe a million dollars might be better spent collectively. So we get some economies of scale rather than giving 10 groups \$100,000.

So some of the decisions the staff have made is you may not see your request for \$100,000 for an outreach, but the staff may have put that in and said we've got a budget of a million and we're going to be trying to do outreach across these 10 groups, or for these 10 groups. But what they're not giving you is the transparency that that's what they've done in their decision making and allowed you to provide input into how that collective budget might be spent.

Steve Metalitz:

I think it's also important to make a distinction between requests from constituencies within ICANN to spend money on us, on something we want for us, I mean obviously in the greater good, outreach and so forth on the one hand. On the other hand is, here are our views on what should be the spending priorities of the organization as a whole. The money spent on contract compliance is not money spent for my constituency.

It's really money spent, in my view, its money spent to try to prove the viability of the multi stakeholder model because if these contracts are not enforced, the multi stakeholder model is a failure.

So there needs to be some, maybe it's a two track system or, it certainly wasn't clear to us that in the request process we should be putting in our views about the spending priorities of the organization. We thought the request process was this is what we want to be spent on us.

Bruce Tonkin:

I think that's particularly useful actually if those two things are separated because that is the real input that the Board requires; is input on what you think the priorities are as opposed to input saying you should spend \$10,000 on this or that. Because quite often the debate ends up being at that level literally; someone lobbies a Board member and says I didn't get my \$10,000 to go to a conference or something and that's the discussion instead of what are the priorities. And what I would suggest Steve, that when you do that, it's in the context of the strategic plan. So in other words, we have a strategic plan...

Akram Atallah:

If I may? I think that we broke down the process of requests into two categories. One is a category of what you mentioned now, which is where should ICANN be going, where should we be spending our money. And that is part of the process of building the strategic plan later on that becomes the operating plan, which turns out into the budget. There are three phases of making the budget. So the participation in that phase of the strategic plan definition is where this guidance comes in. So, investing more in

compliance, getting better on compliance, or maybe even spending on something totally new that we haven't been spending money on would be put into the strategic plan.

[background conversation]

Akram Atallah:

So, if you look at that, then – and I'm sure that we, the compliance team FY'11 to FY'12, you will see a mark able increase in spending; probably over 20%. I just don't have it in front of me and I don't want to be quoted a number, but we'll get back to you with that. So when we see these requests that's how we formulate the operating plan and that's how we get to the budget.

The second phase of that was requests from the SOs and ACs for improving the way they are doing things and what they need to do their work. And that's where we listed the requests and said okay let's go add the requests and we need to put the budget in there for also helping the volunteering organizations get their job done. so these are two separate processes that layer to get us to the final budget.

Chris Chaplow:

If I can just come in and BC agree exactly with that. To answer your question, before I answer your question Bruce, you mentioned \$100,000 for outreach requests – I don't see anywhere \$100,000 for outreach requests.

Bruce Tonkin: I was just giving a hypothetical number.

Chris Chaplow: The BC requested \$20,000 outreach as a pilot project for the other constituencies to use and got rejected. And that was resubmitted back in for the Board on the 17th. Five hours before the meeting, but it was resubmitted. Back to the higher level and improvements – certainly the shift in the time scales has got to be there so at least we see the deadlines for the closing of the public meeting is much further ahead than the meeting so at least we know you've got an opportunity to digest that material.

Bruce Tonkin: Why don't you and Steve come back, by all means send it to me and I'll share it, but come back what you think the timeline should be and what you think the milestone should be because that would be helpful and so we can improve it. And it is frustrating for all of us right, so we just have to have an agreed process that works for you and works for us. But I also want to reinforce it's not the Finance Committees job to start saying should you have your \$20,000 for something or other.

The staff have to have a process. What we need to understand is the process that's being used and that's what the Finance Committee is using. Have we followed the process? Have we taken everything into account? Rather than you trying to say to

George hey I need another \$20,000 for this. It's just not a material decision for the Board. It's more about what's gone wrong in the process and why was your request rejected or did you get feedback, and if not, why not. This is the stuff we want to be clear on.

So tell me what you think the timetable should be and tell me what sort of feedback you're expecting. And expectations so that you can work with the staff to make sure the budget, you at least understand. A lot of what I'm hearing here is a lack of understanding sometimes, but also valid points saying use a different way. Steve suggested allocating some funds to ramp up compliance and that's obviously a valid request.

Chris Chaplow:

And too, the other obvious main area of improvement as we see it was the big one is obviously more detail. Not just the main headings but at the sub level and the sub-sub level of which is completely lacking in the budget. And the framework – I would say back to the old system where we had a more detailed framework of 70 pages as opposed to the 15 slides that we had this year. And the items in the framework, for instance the '11 projects which we know were \$1.1 million, I still don't know, even with the budget, what the allocations against those '11 projects is. They don't dovetail together. And I think the framework needs to dovetail more in with the budget.

Bruce Tonkin: And have you had an opportunity to discuss with the finance staff prior to this meeting? Obviously you can bounce public comments backwards and forwards but has there been teleconferences or meetings this year?

Steve Metalitz: Yes there have been a couple of teleconferences. The most recent one on June 10th when we were called by the finance staff to be told that our requests, which appeared in the budget as having been accepted, was in fact rejected. And we weren't advised there was any reconsideration procedure, so the fact that we didn't seek reconsideration may have something to do with that. There has been some dialogue with this and the finance staff came to our Commercial Stakeholder Group meeting, it's made presentations...

Bruce Tonkin: Presumably that would have been in, where were we in March, San Francisco; presumably there was a meeting there.

Steve Metalitz: I think so, yeah.

Bruce Tonkin: Because I would have thought that's three months out from here, so you didn't get any indication of where we were heading back then?

Steve Metalitz: No that, as Chris pointed out, the framework document this cycle was extremely general. It mentioned contract compliance once and only in a list of things that were covered by one, that fall under core operations – there are ‘13 things under core operations and one of them is contract compliance so that told us nothing about whether there was going to be spending more, less, the same.

Bruce Tonkin: So ideally you would have had enough detail in March to be having this conversation, which would then be three months out from when we actually approved it. I think that’s really the mast then. Because we generally have a meeting in March and generally in June so if you line up your mast with us you’d actually want to see a certain level of detail by March, not final, but at least...

Steve Metalitz: No we understand everything is subject to change. But just having more to react to, I think would be very helpful.

Sebastien Bachollet: I just would like to suggest one possible enhancement of the process. There is a lot of dialogue between the staff and each constituency and that’s good. But maybe we can have one conference call where the Board Finance Committee and all the stakeholders came together in one step before we meet; a good moment in the process to be able to understand the requests and be

able to decide afterwards. It's not at all because I don't think the staff is not doing a good job, it's just because sometimes it's better to have a direct contact and an understanding of the situation. I would like to suggest that we add this point of communication into the program for the future year of defining the budget. Thank you.

Juan Ojeda: Thank you Sebastien. And in consideration of people's time we are at the one hour, but I know that George did want to make a comment about this process. Please George.

George Sadowsky: I think what I'll do is postpone it till we meet in Marina Del Ray because it's going to go longer than a few minutes.

Juan Ojeda: Okay. Well thank you everyone for joining us. And as I previously mentioned we are in the process of reviewing and vetting the comments that were provided to the draft budget as well as the responses that have been drafted. So prior to the commencement of this meeting, the Singapore meeting, we will be posting those on our website. Thank you everyone.

[End of Transcript]