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TORONTO – ICANN Finance Update Session  
Wednesday, October 17, 2012 – 11:00 to 12:30  
ICANN - Toronto, Canada

MALE: Good morning. This is the ICANN Finance Update session in the Regatta Room in Toronto at Wednesday, October 17, 2012 11:00 a.m. session. We'll be starting in a couple minutes.

XAVIER CALVEZ: So I think we're going to start to not delay further this meeting. Thank you for attending this meeting either in person or remotely. I'm Xavier Calvez, the CFO of ICANN. We have probably just as many people on remote participation as around this table. There's more seats at the table if you would like for those of you who are a little bit further away.

Thank you everyone for attending. Thank you to George Sadowsky and Sébastien Bachollet, Board members, Board Finance Committee members to be present for this presentation. It definitely demonstrates I think the importance in the attention that the Board puts on the budget process. So thank you for your presence.

There's a number of staff members as well in the room that are interested in also demonstrating their support in making this process a successful one for the organization.

There's a bit more people coming in. This session has a relatively short number of slides and of course we will insure that towards the end of this presentation we allow for questions and comments, both remotely

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and from the room. And I will let now Janice walk us through this presentation. Our suggestion is that if you have questions, if you wouldn't mind please holding them and writing them down so that then we bring them up at the time once we're done with these slides so that we have a more efficient meeting in case some of your questions may be answered in the subsequent slides.

So here's the floor to Janice. While she's setting up the mic, I wanted to thank Janice, Aba and Maya who are both remotely in Playa Vista in our offices whose work is reflected in those slides, along with the one of all the community members who participated to this exercise.

JANICE DOUMA LANGE:

Just want to say whoever's rambling at the door, we really encourage you to come in. We actually like people to walk in. So welcome everyone once again and to those remotely participating, welcome. I'll be performing both duties – remote participation manager and assisting with the presentation.

What I'd like to tell everyone in the room and on remote – please let us go through the entire presentation first. We promise to make it short in an overview as most of you have been involved in this process, as it should be, so this should be a lot of information you already know.

But please do hold your questions mentally or write them down until we complete the presentation and at that time I'll open and I'll make sure that those remotely get an equal opportunity to do that.



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A reminder that when you do ask a question, for the live stream and the transcript, if you would please state your name and your affiliation – that would be great. Thank you so much.

So we just want to go over the agenda and I have to have my pal here do the update up here. So what we're going to do today is basically take a summary of the community ad hoc working sessions that we have been engaged in from the Prague meeting right up until several weeks ago.

For those who are not aware, we did an open work session in Prague with the supporting organizations, the advisory committees and stakeholder group leaders or their delegates and we had volunteers out of that session who wanted to work further with the finance team in helping to strengthen the FY14 Budget process.

We'll then talk the proposed FY14 framework development and draft Ops Plan and then have community discussion and feedback, followed by the next steps.

So again, just an overview for those who were not involved in the sessions. At the Prague meeting, at the end of the Prague working session, we decided to split into three separate ad hoc groups. One would focus on budget planning process from a strategic viewpoint, not to be confused with strategic planning in the overall sense of ICANN, but being more strategic in our planning overall.

The second group was to work on a timeline of the budget process, especially from the community standpoint, taking their needs into



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consideration. The third group was structure and content of the budget.

We had multiple interactions; we had three conversations per each ad hoc group and we really had a very successful participation from the community and from the staff as well.

The revised process proposal which we worked on with the community which we previewed and engaged with the community leaders from the ad hoc groups on this past Sunday will now be shown to you in its very simple form, understanding there's more work to come and here at the Toronto meeting we're going to take a look at that model just to put it in a visual place for everyone and also to talk the points.

In strategic planning, we talked about clarity. I think that's a word that's going to be heard – another buzzword we're probably going to get our fill of clarity in process. We had many comments from the community that your strategic plan has objectives; we need for your operating plan to have objectives; we need to understand very clearly what it is that you, the staff want, we the community, to comment on and be engaged in. Be clear in your process and in our interactions.

Pre-plan – we're a busy community and we need for you to look ahead, calendar and set an agenda so that we can share with our community groups and we can all be prepared together.

And of course the linking to the strategic plan – the process we want to say we want to work on a process that can work no matter what transitions are happening in the current structure of ICANN, there will



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always be a strategic plan, there will always be an operating plan and there needs to be a link between the two.

The timeline – we’re talking planned and structured interactions which ties into the preplanned interactions. Clarity and time commitment not just for those working with us in a day-to-day through the Wikis, through the webinars, but also for the community at-large – not the At-Large community, but the community at-large – who we need to be able to give the time to go through documents and process and they need to know what kind of time they need to commit.

Next is an expanded budget development time. We need to provide the community with the time that they need in order to really understand the basics of the framework, especially the framework.

Lastly we’re going to front-load community input. Those who have been involved in the budget process are well aware that by the time we get to the posting of the Ops plan, there seems to be no time to comment. So we said okay, let’s listen; let’s front-load your input so we can get clarity sooner.

XAVIER CALVEZ:

Logistical comment of this session is also translated for those of you who are in the room in French and Spanish. I will not speak French because I think not everybody has put on their headsets, but they are so I will be speaking French a little bit for the translators.

So those working groups were created after Prague. After the Prague meeting we created three working groups and we wanted to concentrate our efforts on those three topics and it became quite clear



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the last three months it became quite clear that those topics are so interconnected, so linked one to the other and inference one and the other so that in the future we're going to regroup those three topics in one budget process.

So the interaction with the community will be done in a simplified manner – one group – all the topics being treated from the beginning to the end.

I wanted to give you precision. Those groups were created in Prague after a process that enabled us to look at all the comments that came from the community on the budget process through the public comment process. Those comments that you can find are coming from the working groups; they're not new comments. Many comments were already made by the community one way or the other, coming from different organizations.

Many times the issue that we had that was difficult for us is to take into account all those comments in order to extract improvements out of those comments, to come up with improvements. In the past it got quite difficult. We have to use this process and put them into action and to correct what we were doing.

I think this is something quite new since Prague. Those working groups worked hard and give a lot of time and they're coming up with solutions. That's what we're going to look at – those solutions.



JANICE DOUMA LANGE:

I understood all of that quite clearly. Thank you. The five years of high school French is really working out for me. This is why I work with Xavier; he's going to help me improve that.

So just finishing up on the structuring content because I think it's very important to say our intent is that working with the community in this improved budget process model will make it so that by the time we get to posting of any of the budget documents, there are no surprises. Everyone is aware and has been part of the process. That doesn't mean everyone will have agreed with the outcome, but they certainly will have had the opportunity to have their community's voice heard and have the input.

We think that's extremely important work that came out of these ad hoc groups. And lastly, we want to take into account the community's expectations because we need to manage the expectations of the community, and they of staff. So we felt this was very important in our process and we thank the community for these points of input.

To just take a look at the overall planning process as this works out, again, just showing the three-year view of the strategic plan which you also can understand from Fadi's presentation on Monday the words "objectives" and "goals." We're working hard to make sure that we utilize terminology that is consistent from the strategic plan to the operating plan and of course, for Fadi's overall vision so there's no confusion in terminology.

The framework, again we will always – no matter what slight adjustments are being made to a process in the strategic plan – the framework will include input from the strategic plan to link it. The



framework also includes programs and projects and the input from the community into those programs and projects.

The operating plan will become a more detailed look at that information. Throughout those three documents and the development of those documents, there will be continual interaction with the community and the Board which of course includes the Board Finance Committee. So the arrows go back and forth to show that we intend to do that. Xavier?

XAVIER CALVEZ:

So here we want to make sure it is interaction and not just publishing information and in gathering comments through a long cycle. It needs to be interaction and we will talk further about that aspect of that interaction.

But overall strategic plan is an input into the budget process and as the strategic planning process evolves, we will insure that there's an adequate synchronization between the strategic planning process and the budget process. And we feel that there are further improvements that can be made on that front and we are expecting to make adjustments to that specific aspect of the process down the road with the changes in the strategic planning process that we're expecting to accrue.

The public comment is obviously an absolutely necessary tool. This is ICANN's DNA in the works, right? We need to insure everyone has access to the information and everyone has a voice on the budget process. So the public comment process is obviously there to stay.



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We count on it to hear the voice of the community, but also in addition to the public comment – and that’s what we had little to none in the past – is we need to be able to recognize that the budget is technical material. It’s not just a simple document or it’s also not a subject that can easily be supported by a policy development type of process.

It’s a subject that requires a lot of interaction and back and forth to get into the data, to be able to look at and validate the data and conclude on it. So the public comment process is necessary, useful, important. It’s not sufficient to help us go through this process adequately so that we do get adequate input from the community and can reflect that input adequately as well.

JANICE DOUMA LANGE:

Great and we’ll move to the next slide.

XAVIER CALVEZ:

So just a quick recap of the major steps of the process. So the framework gets built from strategic planning input and from a definition of the activities, the programs, the projects that the organization carries out. You may start recognizing some vocabulary that we have been using since Monday with Fadi’s presentation on his management delivery system and we’re going to sync ourselves through that management system. We’ll talk more about it.

So this is an input in the framework. The framework leads into then a more detailed formulation of the activities, programs and projects, with a refined scope, a refined timeline and a refined formulation of resources at a more detailed level. So now this is the cost of each staff



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member; it's the formulation of the categories of professional services and consultants and all the overhead costs and so on. And that leads into the final draft of the Ops Plan and Budget that has been published in the past around early May – just an overall recap.

This is a little bit more detailed recap and I recognize that this slide is a bit busy but it was helpful to the working groups to lay out on one slide through a timeline the major phases because that's where a lot of the conclusions came out on these working groups. And I'll focus on this slide on the major change that I think we need to highlight out of this process versus the past year's process.

What we need to be able to do is expand the phase of the process where the input and interaction with the community can happen and we need to be able to bring up that phase of interaction, make it happen earlier than it used to be so that the interaction that leads to input from the community and potential changes and adjustments to the budget can be effectively done because it's provided sufficiently early in the process.

The issue that we've had so far is that the public comment process that was the mechanism to gather comments from the community was concluding around mid-June approximately. From mid-June to the Board approval on the 20<sup>th</sup> or 25<sup>th</sup> of June, there was barely the time to just consolidate the comments, have a quick look at them, put them in a spreadsheet and try to publish something which is what we've done at the end of June.

We've done a first look at the comments, tried to address them, but the process and the timeline never allowed to take those comments into



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account to revise that budget process and that budget outcome because it's finalized. You can't change the result of a nine-month process in two days; never gonna happen.

So what we've allowed ourselves with those working groups is take those comments that came through towards May and June – which again was fairly similar to the one that came through in the past years – and now taking that input and try to revise the process so that we adapt ourselves.

So the bottom line is we're going to expand the framework phase to make it longer; provide through that phase in sequence more information than we have in the past, more detailed and granular information than we have in the past on the activities, the projects, the programs of the organization so as to enable the community members to be able to assess these activities, to understand these activities and these programs and be able to formulate comments on the adequacy; formulate questions as well for clarification and understand whether a project is a two-month exercise with one supporting staff or is an 18-month subject with 20 community members and 15 staff and a complex process.

Those two different pictures are things that need to come out of the information that we provide. We will describe more precisely the first view of the information that we think is necessary to provide during that phase of the framework.

So some of the staff who's in the room is already starting to worry because - don't you, Maggie - because we are going to ask the staff through that phase to formulate quite early more information, more



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detailed information and you can see that this is going to happen basically from now until about mid-February. And therefore, the staff is going to be asked to look at between six and 18 months ahead. We're talking about fiscal year 14 so it's the fiscal year that starts in July 2013 and finishes in June 2014.

Some of that is quite far away but that is what a forecasting and budgeting exercise is about. So a lot more information needs to be provided up front during that phase, so as to enable the community members to have sufficient information to adequately formulate opinions on the basis of the information provided.

That also means of course that we enable that interaction, that we enable the community to receive the information, to have sufficient time to work on it, analyze it and provide us with feedback. And sufficiently often so that we can take this input and amend the content of the budget to either clarify or change directions as a result of the interaction with the community.

At the end of that phase the draft Operating Plan becomes the more detailed translation at the item level, the cost-line item level, of that plan that's been formulated through the framework. It's just making it a little bit more detailed. It's the bottom-up exercise that we'll complete. But there should not be – to Janice's point earlier – there should not be any surprises coming out of that draft Operating Plan versus what's been formulated at the end of the framework.

It should also make, therefore, the public comment, at least for those organizations who will have participated to the development of the budget, it should also allow these organizations to have less substantial



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amount of input on the substance and probably more on just reconciling what is in the final budget, corresponding effectively to what was designed during the development of the framework.

JANICE DOUMA LANGE:

Xavier, if I can, I just want to make three points – one going back to the ad hoc working groups. I think I should mention this; it's really important. At the end of working on a PDP, at the end of working on an official working group, this ad hoc process for me is the first time I've gone through this kind of experience with a community.

And I just have to say it was refreshing to be able to work together and be honest. We were able as staff to be honest and say we really couldn't get everything completed that you wanted us to and I don't think we really knew how to raise our hand because we're so used to just taking what you ask and say, "Okay, let me just get on the treadmill and let me just try to do this." And for me it was very refreshing to have that open conversation and be able to admit from a community or a staff point, trust us – it's not working that well for us either.

So we really appreciate all the efforts and the honesty that went into this relationship and really looking forward to working together again with some familiar faces and some new ones to do the same again.

Secondly, just to point out also expectations I just talked about and that is for staff, so that's why I wanted to mention it when you said it. When we say detail, we need to be very clear to the community and to the staff the level of detail – that's a great word.



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But as we're going into this process, this is an evolution and I think we're striving to be better and better but we need to be careful about those expectations and what you as a community hear when we say more detail in the framework; what the staff feels that they can manage that early on for more detail and work together during the first time out in the framework to understand what that is. We are committing to it, we are believing in it but I think we need to manage an expectation of the word details at the high level.

The third thing I want to mention before we leave the timeline is the SOAC and Stakeholder Group Special Request. So this will be year three for this process. I think we need to note that we are no longer tying that process to the framework or in a sense to the Operating Plan.

It will be published at the time of the Operating Plan, but the idea is the same as with the framework and with the draft Ops Plan and Budget. We will have continual interaction; we will help the community to define the requests so that they can understand early on this won't be possible and here's why. Here's how we can change it; here's how we can modify it; here's how you can get what you need in a way that we can deliver.

So I really want to point that out, Tijani, because I know that's near and dear to your heart and when we finish the presentation, if you have any comment, I'd be happy to hear it. Xavier?

XAVIER CALVEZ:

Thank you. I won't expand on this. I think we have already described what we intend to do there on the framework in the previous slide. But



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this just recaps the notion of having multiple interaction on several occasions through the development of the framework and that's something that we'll see in the next steps need to be defined and finalized further, but that's basically the conclusions of the working groups that have happened.

Let me move on. So this slide is really aiming at providing two different messages. One that what we need to make sure we enable is that the information of the framework is very consistent in terms of its structure, its design, its labeling to what will be in the draft budget at the end.

We have struggled in the past in changing formats, changing a little bit the linguistics, the structure and as a result making the work of the community members who have looked at the framework and then looked at the draft budget a bit more complicated because it was difficult to match one with the other. So we need to insure we manage that adequately and we're going to insure first that the format is the same, that the structure of the data is also the same.

So what the difference will be is of course in the level of detail that the information is being produce in both documents. So we will increase the level of detail in the framework versus prior years, and the level of detail in the draft budget will be higher in the framework and we will also need to make adjustments I think versus what we have produced in the draft budget in the past as well.

And the input of the community on that – certainly a number of the members of the community on that – is already available and we'll continue to seek it.



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Quick image of part of the development of the framework and the link to the strategic planning is we've taken here an example of strategic objective and we've engaged new stakeholders and we've translated that in what a program could be with a number of projects underneath. So a program that supports engaging new stakeholders is an outreach initiative and that outreach initiative has different components under it which we're displaying here as a matter of example and we will continue drilling down into the structure of the data in the subsequent slides.

So either for a core activity which we can call a function or basically what I would describe generally speaking as the day-to-day work, as well as for programs and projects, we believe that the information that's necessary to enable the community to formulate assessments and opinions on the content of the budget requires that each of those activities or programs are described with an objective, a timeline – and that objective, by the way, just to elaborate a little bit on that – could combined with the timeline display the milestones of that project, the main steps of that project because it enables the understanding what the project is about.

So objective, timeline, what the metrics are for the success of that project, what the deliverables are outside of that project or that activity and what the resources are. Resources – you can translate that into budget, but it's a little bit more general than budget.

Resources is also headcount and as you may remember, we are not currently including the cost of the staff into the overall cost of a project today which is why I want to emphasize for a project or a program, the



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external cost associated with that project is what we need to put in that resource bucket, as well as an assessment of the number of resources assigned to that project, measured by full-time equivalent criteria, for example.

As part of the next steps – we’ll talk about that a little bit more later – but as part of the next steps, what I want to make sure we manage to get quickly from those of you who would like to provide feedback is – is that sufficient; how does that work effectively?

So we’re going to try to formulate an example of templates, circulate it with a number of you to get feedback on how adequate that example is because right now you can see this information, but once it’s translated to an example, it will be a little bit more tangible to determine whether it’s sufficient or not. And we came out with this suggestion out of the meeting on Sunday with the input that notably Chuck was providing to us then – Chuck Gomez. Thank you.

So moving on let’s take an example of the DNS-OPS Department. You can see here translating this notion of core activities and projects and programs and trying to formulate those objectives, timeline, metrics, deliverables and resources.

For some of those activities or projects, the metrics and the deliverables sometimes are the same, meaning that the project is a success once the deliverable has actually been produced and that’s the metric to measure the success of the deliverable. But of course, as part of the metrics, you can also have progress of the project along its path.



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Here I want to take a pause to remind everyone of the presentation that Fadi made on Monday morning. We will of course start implementing quickly in the way we work inside the organization, start implementing the overall management delivery system that Fadi has laid out on Monday morning.

And that will require that we translate a certain amount of information that we were presenting either from a departmental standpoint or from a functional view standpoint to this management delivery system. And the great advantage of doing that of course is that not only is it a way to produce the information for the budget, but this is also how we are going to monitor our activities, including from a financial standpoint, on a go-forward basis.

So there will be 100% match between the way we budget and the way we monitor, so comparing actual with budget will become a much more natural and simple exercise, so this seems a little bit more idealistic. There's a huge amount of work to get accomplished in the next few weeks and months on that subject and we're going to struggle through it, but this is the right thing to do and this is where we need to go.

So it will also be – I want to emphasize this because this is extremely important – it will be easier for us as an organization to be transparent on what we do and how much it costs because there will be a consistency between the processes and the structure of how we budget and how we account and how we report. And this will become a full cycle of budgeting, looking ahead, operating, delivering and reporting. And we need to close this cycle to make it turn and complete and we have not done that yet.



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You may remember Fadi mentioning on Monday the four execution objectives and its 16 execution goals. So here the management delivery structure will fit under those objectives and goals and this is the basis for further breakdown of those objectives and goals which will be the pattern that we will retain to formulate the budget and the actual costs on a go-forward basis.

You may remember the four execution objectives, the 16 goals – four per each objective. If you paid attention and you remember the numbers from the presentation on Monday morning, I think there's 55 initiatives that fit under these 16 goals – that's the third layer that is not apparent on this slide, but I just remind everyone with.

The fourth layer is 150 programs that fit under those 55 initiatives and this is the structure of the data that we will live with on a go-forward basis for budget, for actuals and for a lot of the monitoring of the activity.

As a side note, the formulation of this management delivery system was music to my ears when we shared it with Fadi. This is a great tool for us in Finance to be able to work, to have accountability, to facilitate transparency about what we do and make our lives easier on reporting as well.

I think that we've already talked a fair bit about this. This is how things will look in the future, trying to break down the management delivery system and those functions by those goals and those objectives and assign numbers to them.



Next steps – we need to finalize the mechanisms of the interaction with the community; calls; Adobe rooms; documents; timelines – so that we can finalize the budget process and start quickly laying out the schedule of that interaction, as well as finalizing the formats of the information that we intend to share and interact on so that we can move forward on it quickly.

We didn't mention it here, but that also includes refining the SO and AC additional budget request process which we have I would say a straw man from last year on but we need to refine it further. Let me stop here. Thanks everyone for the attention you've provided to this presentation and now we open up the floor for questions or comments.  
Chris Chaplow?

CHRIS CHAPLOW:

Thank you. Chris Chaplow from the Business Constituency. While you were talking in French, Xavier, it gave me a chance to reflect a little and I was just thinking about the ad hoc groups<sup>3</sup> and a phrase came to mind – Never in the history of ICANN has so much been achieved by so few for so many.

XAVIER CALVEZ:

Thank you for that. It also shows that you can multi-task. You can listen to French; translate it in English and do something else at the same time.



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CHRIS CHAPLOW: Well I wasn't able to get the phrase exactly off Wikipedia, so anyway... But seriously, and obviously the influence of the new CEO has come in and sort of either overtaken – overtake is pushing from behind.

Just one little point – it wasn't my main point – you mentioned the cost of staff is not in the projects and that's fine but from trying to put the jigsaw pieces together, it's always been a question in our minds – is it or isn't it – so if it is, it's always helpful to state it and if it isn't, it isn't. Whichever way it doesn't matter, but if it's stated, then it does help.

XAVIER CALVEZ: Understood.

CHRIS CHAPLOW: I was just looking at the management delivery system and I was wondering – is that the software that was the Microsoft Dynamics GP System that's been mentioned a while ago that's coming online or has that been thrown out and this is something new or is it a system in the general sense and not a software? If you would just elaborate a little. Thanks.

XAVIER CALVEZ: Sure, so what we have presented here is a conceptual picture of how we're going to track information. Not to go too much into details, some of us in the staff can tell you that it started with an Excel spreadsheet. We are working on finding an adequate system to support this and manage it, a system that will help us display that structure and go to the

next level of detail which will be activities and tasks and use that new system that we're defining as the tool to actually monitor and interact.

And a Fadi or an Akram will be able to go in that system and say, "Okay, I want to see everything that's happening on IDNs," and he will have all the functions, all the projects, their status, who's accountable for them, where are we on it, orange lights, green lights, red lights and ultimately financial information as well.

So that's a concept, that's a reality and it will become a system but it is not the accounting system; it is a management system and of course, the next step for us will be to plug in the two together – the accounting system and the management system.

There's a lot more information from an accounting standpoint in the accounting system; there will be a lot more information in the management system about projects and functions than there will be in the accounting system but the two will need to be completely synchronized and plugged in.

I don't want to have to even think about – and this is for Ed, our IT guy who's somewhere here – I don't want to have to reconcile anything. It has to be automated and smooth, so we'll work on that and I know has already that in mind.

JANICE DOUMA LANGE:

And if I could I'd like to read from our Adobe Connect room. Kevin Wilson, CFO Donuts – Thanks for the great progress on the budget development process. My first comment is congratulations, Xavier and the Finance Team for completing the year-end audit on time and in fact,



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early. No easy task with so many competing demands of your time. I was especially heartened to see for the first time that the New gTLD segment it was broken out in the footnotes.

One very important part of the budget is a separate New gTLD budget. I know everyone knows that the gTLD program is designed by policy to be revenue cost neutral, meaning that any surplus is not to be used for the general ICANN operations. Thus, the way that these costs are categorized is critical for the calculation of the surplus.

These calculations are very important, especially for the New gTLD applicants, including Donuts. We want to make sure that your process results in transparent, accurate and fair financial reports. Can you share your plans to insure this?

XAVIER CALVEZ:

So thank you for this comment. I will try to give a reasonably short answer to it and remind as a result of that comment and question to everyone what we said over the past few months. We have created in our accounting systems two different virtual segments – one for the ICANN operations and one for the New gTLD Program. The two combined together create the financial statements of the corporation.

That's from an accounting tracking statement. I'll come back to that because I think that's what Kevin's question is. As a reminder, we also have different bank accounts – bank accounts for the ICANN operations that are separate and different for the New gTLD Program and we don't comingle these two together and I'll come back to that again.



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Any transfer of costs between those two components of the ICANN activity is the subject of a bank transfer. We make a payment from the ICANN New gTLD bank account to the ICANN Operations bank account when it is required. So there is a very tangible, traceable support for any transfer between the two programs.

So let me come back on the accounting for a second. What is under the New gTLD Program is information that's very specific to the program, so application fees; we have very specific budget line items and procurement line items from our procurement system relative to the New gTLD Program. We have very dedicated personnel who's supporting the New gTLD Program – that's the New gTLD Team. They're in one department. That department is the only one that is accounted for under the New gTLD Program.

Then after that we have overheads which is the result of an allocation of costs and time that also is allocated to the New gTLD Program though the mechanism of transfer that I indicated before.

So a cost in the ICANN operations – let's say a proportion of my time for example – is part of this overhead allocation; is formulated on a monthly basis; is recorded in the accounting system as a transfer between the ICANN Operations and the New gTLD Program and is the subject of a bank payment so that we keep track of that even more so tangibly than just in the accounting system.

Ensuring that the costs that are applied against the New gTLD Program then become a lot easier because they're always very specific. And there's no confusion between the accounting accounts and the accounting system because it's two separate entities.



So what is going to come out of the New gTLD Program in terms of cost is a very specific identified list of items that's actually relatively limited; it's big numbers but it's relatively limited list of items and are very specifically identified and very specifically supported.

Are there questions? Raimundo, you can formulate it in French if you'd like and in Spanish as well. Please don't do both at the same time, but...

RAIMUNDO BECA:

Just for the record because many people in the room don't happen to know who is Kevin Wilson. He used to be the CFO of ICANN and the question he addresses is to some extent the same I've been making since San Jose – part of the question he raised – the fact that there is a strong commitment to return to the ICANN these historical costs.

And the question I mentioned and I haven't heard until now a proper answer to that is 1) which is the real amount of the historical costs because the last estimation was made – if I'm correct – in September 2010 and there were a lot of expenditures, historical costs after September 2010. So I asked if we could have audited the amount of that. That is the first part of the question.

And the second one is that I think that the way in which the fee was calculated – the \$185K that were calculated – at that moment Kevin also was the CFO and I was the Chair of the Finance Committee, so both of us, we know exactly how that was calculated. And it was absolutely clear that the historical costs should be returned to ICANN immediately after they send the money. So I would like to know the amount and then when it will be returned.



XAVIER CALVEZ:

So Raimundo, thank you. As indicated we have discussed these subjects before and I indicated I think either in San Jose or in Prague or in both that we were working on translating this estimate in a finalized number and that these numbers would be audited probably – this is not confirmed yet – but probably by a recurrent independent auditors in a similar fashion that they do their audit, though it's a specific type of exercise because it's a multi-year exercise.

But the estimates of those costs which you're referring to which I think from memory is \$32.4 million accumulated over four years is at this stage only an estimate and we have basically gone back to recreate the translation of what those estimates were because those estimates had been formulated, of course, ahead of time and now we need to put the actuals in front of those estimates and that's the exercise that's undergoing.

It's a complicated exercise because we're looking at five or six years back – from memory October of 2007 unless I'm mistaken. So it's a bit of a complicated exercise but of course it needs to be done. This is a large amount of money.

On the timing of the repayment, so the timing of the repayment is connected or is dependent - which I don't think was identified before - is connected to the ability to have finalized the list of refunds as well just because the amount of refunds reduces, of course, the available application fees collected because we're refunding some of them and those refunds also happen throughout the period of evaluation.



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So the numbers are sufficiently large that there is a likelihood that even though there would be refunds, there would be a sufficient amount of money to effectively retrocede the costs incurred by the ICANN Operations in the past, basically, that have been taken away from the reserve fund of ICANN to retrocede those accounts to ICANN.

So the issue is that the timing is not as simple, unfortunately, as immediately at the end of the application period, that the repayment can be done. It's going to have a wait a bit that we can finalize the prospective of the refunds so that we insure that there is adequate amount of money for the repayment of historical costs.

This is further explained in a document that I was hoping to have been by now able to publish which is the Revenue and Expense Recognition Policy. It's a position paper that we have built and are having reviewed by now a second audit firm to ensure that it's adequate. Our auditors have reviewed it and have no problem with it, as can be attested by their independent report that's been published 10 days ago, two weeks ago.

And we're having a second audit firm looking at that policy and it will be further detailed in there. So I'm hoping to publish that document for review by the community in those weeks subsequent to completing that second review. It's a bit of a technical document. There are a lot of accounting jargon in it, but nonetheless, that's where it's laid out.

JANICE DOUMA LANGE:

Tijani and then Kevin, we'll come back to your next question. [Allal], you'll be in line behind.



TIJANI BEN JEMAA:

Thank you, Janice, even if Xavier didn't have the courage to continue in French, I will speak French. This is a comment regarding what Janice said. I would like to thank her for what she said because it was an important position and she said that we had to be careful when we said "details" at the higher level when we mention these higher level details.

She is completely right; it's what I said during our last session when the high level contradicts detail. So we cannot expect to have details at the framework level. It'll always be at the higher level. And I completely agree with her. That's why I said to have more time to draft the budget and maybe less time for the framework so we would have more comments and more details.

Secondly, she also said that the community's additional requests will not be added to the framework. I understand; it's normal I think. It'll be annexed to the framework and it will be added to the budget once it's been drafted. Thank you.

XAVIER CALVEZ:

I don't know in which language to respond because I don't speak Spanish; I only know insults in Spanish; I can't do that, so obviously I'm responding in English.

I think there is a language issue in the point that you're raising. When we say – you're going to correct me I think – when we say high level of detail, it's not high level information and therefore, not detailed. It's a more granular level of detail.



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Okay, so we intended to provide in the framework more detail, so insufficient detail so as to enable the community to provide input that they were only relying on the draft budget later on to provide before. So the condition of this working is that the level of detail is sufficiently granular so that there is enough information to provide comment and then it does make sense to expand the framework so that we...

First of all it needs to be produced and that's not going to be a simple task. Second, if it is there, then we want to be able to interact with the community on it so we need to expand the framework process so that this production of data and interaction with the community can happen. So it's not high level detail which would be contradictory; it's a higher level of detail, a more granular amount of information provided during the framework.

JANICE DOUMA LANGE:

And Jacques, not disregarding the two people in the queue, but did you have anything to add to that from the ad hoc group?

JACQUES:

No, I think Xavier covered it very well. Real quickly, just to rehash cause you were on the same group I was on the timeline and what you expressed was the same concern that I and Byron had expressed and then it was explained – what Xavier just said – which is another way of attacking the problem so that we have enough information to comment, get responses, interact and so forth. So I don't think I have anymore besides that.



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JANICE DOUMA LANGE: Okay so I'm going to go to Kevin remote and then, Allal, you're next in line. Kevin Wilson – CFO Donuts. Clearly there will be a significant surplus because of the contingencies built into the original cost estimates for the 185K application fee for the New gTLDs. The number of applications received must give great opportunities to spend efficiently.

Do you agree that the \$350 million received will in the end net down to a significant surplus, acknowledging that you cannot be 100% confident? Thank you for that.

XAVIER CALVEZ: You want to make a comment, Sébastien, before? I will respond.

SEBASTIEN BACHOLLET: I want to make a comment. We are here to discuss process and I think it's a very good question, very important question but it's not the room to do that. We need to stick on our agenda, the agenda to set up the framework and that could be asked in the public forum tomorrow, for example, but not here. Just stick on the schedule please.

XAVIER CALVEZ: I was going to say that as well so I don't have to say it anymore. The only thing... And George Sadowsky's also in the queue to make a comment on that. Anyway, I would not be able to formulate an answer the way the question is formulated. We have already answered on the notion of surplus and I cannot commit on something that is not possible to commit on at this stage.



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But the one thing I can commit to is to have another discussion more specific with Kevin on the subject with another staff member as per our New gTLD communication requirements. I think George had a point to make.

GEORGE SADOWSKY: Well the point I wanted to make is I'm also on the Finance Committee and I agree completely with Sébastien. He made my comment.

XAVIER CALVEZ: Thank you, George. Alain?

ALAIN BERRANGER: Merci beaucoup, Xavier. [I was going to speak] in French but for the sake of timing and a of words in this English presentation, I will do it in English.

I'd like to refer to slide 15 of 16 on the new budget data structure and I'm really impressed because less than three weeks ago I got – like all other constituency heads – I got a phone call from Fadi to explain to me these priorities in the next budget.

And lo and behold, I look at the new budget data structure and I see the four execution objectives as being exactly what he said and explained to me and to others in similar conversations. But he did add a fifth very important point for me is that he was absolutely amazed at how constituencies were able to deliver everything they deliver with a few tools like Wiki and email and a wish and a hope.



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And he said this would change. So when I look at the up and down structure, I see management delivery and in a fit of inner vision I would have loved to see a second block called community delivery. And of course, I presume the older way of doing things, or the current way of doing things would have community delivery budget lines embedded or sub-embedded in the one, two, three, four – eight management delivery systems.

So by not a criticism as idea as you know – I mean this to be positive – but I think if there was as much clarity on what is expected out of community delivery through the various organizations – if it was as clear as the execution objectives, we would be further ahead. I don't know if this is a technical problem or a mindset problem or issue.

XAVIER CALVEZ:

Thank you, Alain, for this comment which is very fundamental I think. So just one quick clarification. When we say management delivery, this is a management delivery system, not the delivery of the management of ICANN. The reason I'm saying that is because on gTLD registry and registrar or on organization support or on stakeholder support, the management system – and you haven't seen the granularity of it but you've seen only the 16 – 4 by 4 – objectives and goals – will display activities that the community participates to.

So a lot of those projects we're all in together, right? So what has never been captured in the past and is currently not is to your point the other part of the resources that are contributing to delivering those functions and projects which is the community input.



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We could say in the resources that we lay out for the budget process in the Finance Department for example, there is that many internal staff and that many community hours because when Chuck and yourself and Tijani and Raimundo and Chris have been working with the others on the working groups, there was time. There was an hour or an hour and a half of phone calls; there was that many hours before for looking at documents; that many hours after of putting conclusions.

It's a lot of time and it's not accounted for in the corporation's financial statements. So you and I have exchanged emails on this subject. I said I will look at the accounting technical question of it and how can the work of the community be taken into account from an accounting and technical standpoint.

There are ways to do it. It's a quite big question because it's really trying to effectively measure the contribution of the community in the work that ICANN as a community does. I don't view ICANN staff in the community. We're all in this together. We're dedicated to it and everyone is trying to contribute to it.

There are ways to do that. I will investigate it further. I think there is a technical answer and there's a much more philosophical answer to the question as well. Go ahead.

ALAIN BERRANGER:

In pursuit of that if I may, if you allow me, I think it is interesting to blend in the estimate of community FTs as essentially stakeholders' volunteer time. I'm thinking about the actual financial support or technical support that the staff gives to the community and it would be



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nice from my point of view to see that embedded at this eye level of the data structure, okay?

So because it speaks to equality but it also speaks to a mindset. If it stares you in the face that... There's no secret that constituencies are short of resources and sometimes we fail in trying to achieve our objectives because we are not able to have the time and the resources to process and there are repetitional risks to that.

So it's not a complaint situation; I understand it's a difficult issues and mindsets don't get changed that quickly, but I urge you to think about... I know you are thinking about it – I just wanted to make the point that I see instances where – and it's more lack of resources or shortage of resources rather than an accounting for shortage of resources. But there are repetitional risks to the constituencies not being properly funded at minimum levels.

XAVIER CALVEZ:

Thank you, Alain. I'm not trying to expand further on this subject, but to just throw in another twist that Rob Hogarth who is sitting two rows behind you can attest that he and I talked about a notion of customer service in our organization and customer in the sense of stakeholders so that we have an approach to our work that has the ability to really focus end to end on a customer focus. So I think Raimundo has a point to make and I think Chris is in the queue afterwards.



RAIMUNDO BECA:

Still English, huh? [laughs] Mainly because the word [baseline] I have to use in what I am saying, I don't know what's the translation in English or in French or is French for [baseline].

The point I want to make is both in the framework and in the draft budget. There should be a clear separation about the baseline costs and the rest which means that in baseline they are costs that we cannot discuss them – wages are wages; leases are leases; the payment of the historical costs... we have to do it we want or we want not.

So we should highlight the discussion only to the point that it has to be discussed and set a very important definition. I mentioned that in the working group.

XAVIER CALVEZ:

So Raimundo raises an important point that's been made also through the working groups which is partially philosophical; partially very practical. We need to recognize what really the community wants to look at and what the community should be looking at.

As Raimundo indicated and as other members of the working group indicated, the community does not want to look at every single thing, not at every single expense. The community needs to understand where the money is spent and insure that it's correctly accounted for and understands how the money is allocated to what functions and activities.

But we need to help the community and guide the input towards where it's most needed which is on those projects and programs where there



is significant decision-making required on what directions it should take, how it should be done and so on.

And there's a number of areas of expense that to Raimundo's point it just needs to happen and there's not a lot of valuable discussion that are useful to happen during the budget process development and that distract, by the way, the valuable time of the community spent on analyzing the budget to analyze a whole bunch of things that are not necessary.

So we need to also refine the way we present the information so that we help the community focus its reviews on those items that matter most.

JANICE DOUMA LANGE:

And we are winding down on time so, Chris, I do want to give you the floor before we have to break.

CHRIS CHAPLOW:

Thank you yeah. I'm just following on from Alain's comments and acknowledging the joint goal and also the SO AC support requests. I brought with me to Prague the BC brochure/newsletter which we've done on numerous occasions. This time it's done better than ever and thanks to ICANN for the support request which for the first time ICANN is supporting this brochure.

So I've got to rush out to a meeting. I'll leave you a copy. I'll leave some copies here for everybody and I've got a copy here for Xavier and an invoice is inside if that's alright. Thank you.



XAVIER CALVEZ: So it's a dedicated copy then, a signed copy for me. Thank you.

JANICE DOUMA LANGE: Jacques, quick point.

JACQUES: It's really a compliment to the Finance Team. I, like everyone else, am very thrilled with what Fadi has brought to the table and what he's doing that will complement what we've been working on. But I'd just like to compliment the Financing Team. You were well on this path before Fadi even came onboard. So I thank you for that and appreciate it very much.

XAVIER CALVEZ: Thank you. That's helpful feedback and well-received by the team who's worked on it.

JANICE DOUMA LANGE: Alba, I hope you heard that applause, and Maya. We just have one minute. Fatimata, I know you wanted to say something, so please.

FATIMATA SEYE SYLLA: Thank you. This is Fatimata, but I think it was almost all said but I just have a gratification question. By the way, thank you for the clarity of your presentation and very well done work.



It's within the framework content, you have listed five items – objectives, timeline, metrics, deliverables and resources. I think it wouldn't be bad to have the goal aimed at when we in the project or a program. This is just for clarity. I'm sure you've discussed this within the groups maybe. Or do we have to guess that we have... I mean the results are underlined in the deliverables and the metrics, so wouldn't it be good to have the goals explicitly formulated?

XAVIER CALVEZ:

Thank you. So I think one thing just quickly that we will try to do for each program and project is relate those four objectives; the 16 goals and to map these activities and projects against that matrix so it helps that. And I think as part of the five items that you reminded us of, the objective is where we're going to try to make that goal as well a little bit more explicit but I thank you for the input. That's helpful.

With that I think we are done on time. Helpful. Thank you very much to everyone. Thank you for the members of the working groups that have worked very hard to get to everyone here and to get that input because there's two sides of the coin and it's been a very collaborative exercise and we need to continue that effort I think.

Thank you for the members of the working group who are also not here because of conflicts. Steve Metalitz participated; Paul Diaz; Olivier Crépin-Leblond and a number of others. Just want to remind everyone not everybody's here around the table to talk about it.

Thank you very much. This concludes our session on the budget process. Thank you.



JANICE DOUMA LANGE: I'm going to go off topic to everybody in the room. It's often that we have new members of our management staff come on board lately and as such transition. I would like just to introduce – you're just gonna kill me – just a note that Edward Beck who is the new Vice President of Information Technology is here in the back of the room. So if anyone hasn't met him yet or would like to go over and shake his hand and welcome him to the community, please feel free. Welcome, Ed.

XAVIER CALVEZ: Thank you, Ed. Ed is everyone's new best friend in ICANN because he's going to provide system solution to everyone.

[End of Transcript]

