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BUENOS AIRES – ICANN Finance Open Session  
Wednesday, November 20, 2013 – 08:30 to 10:00  
ICANN – Buenos Aires, Argentina

XAVIER CALVEZ:

Based on the 7:00 session, thank you for coming. I think that the attendance in terms of size and quality is going to help us have a fairly interactive session. A number of you have seen a large portion of the presentation that we're going to go through, but I'd like to make sure we get a chance to interact on the structure of the document we're going to look at. I'll go quickly over the Agenda and make a couple of comments at the end on other topics I want to add.

We'll talk mainly about the budget process this morning. Going over the guiding principles that are going to affect the FY 15 process. We'll look at the planning phases and the timeline and spend a bit of time there to try and clarify the various steps of the process for FY 15.

We'll also spend a bit of time talking about the content and the structure of the content. I know those of you here have input to provide on the structure of the content, so I'd like it very much if we could spend a bit of time together on that.

We'll look at the additional budgetary requests process as well, and we'll share feedback from the Budget Process Improvement Working Group who met once at the end of October and provided feedback. We'll address some of the points that have been mentioned, but I wanted you to have an understanding of what that group did, and knowing that a number of you present here today were part of that group.

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I will try to be relatively quick outside of the main points we've highlighted, so that we can have as much time for interaction. Based on the size of this group, as opposed to the usual suggestion that I make that we go through the entire presentation and then go over questions, I'm thinking that I'd actually prefer that we go over questions and comments on the slides while we're presenting them.

We can then have a more interactive and immediately reactive on the subjects that we're going to talk to. It may be a little bit easier for you to make the comments that you may have, that the subject will bring up.

I'd like to keep five-ten minutes at the end of this session to talk about financial reporting, which is not on the Agenda here, which is on the budget, to just mention two different processes or documents that we've produced, that we'll publish, and that have financial information in it, just so you're aware of them. You can then look at them in the future and expect them on a regular basis. Let's move on.

I wanted to bring up a little bit the subject of our environment, in which we'll work through the FY 15 process this year. There are a number of impacting environment events that affect what we're going to do this year and how we're going to do it.

The strategic planning process in the ICANN Strategy Panels – there's been a lot of discussion about these Panels over the last few days – the work on the strategic planning process that's going on, and will be completed by about the end of April, will obviously impact the process for FY 15.

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It'll do this by, as we've discussed already over the past few months, by the fact that we'll not have the input from the strategic planning process to use as part of the operating and budget plan development. We'll not have that information available as we start the operating plan and budget. As a result, we're going to adapt our process to allow ourselves to have a certain amount of information that we'd normally have out of the strategic planning, but we'll not have this.

So we'll look at how we're addressing that further on in the presentation. The ATRT Working Group has been working on what I would call a planning, if not a financial planning recommendation. I don't know if any one of you has seen their draft recommendations? I have. I have had a couple of meetings now with the ATRT that work on the subject and on their recommendation, generally speaking, we're very aligned.

I think their recommendation makes a lot of sense. It's very aligned with the need and direction of developing, improving the amount of information in the process of validation of information that's shared with the community and the Board. I think it's very aligned in the direction that we've tried to go towards with the FBSC and the discussions we've had over the past few months, or over the past year.

Very, very comfortable with the objectives that the recommendation, which is recommendation #12, I think, from the ATRT is providing. Of course we'll take that into account as well, when it's finalized in the budget process.

The general Internet governance activity, we've just come out of the 7:00 meeting this morning. How is that going to affect what's going to

happen over the next few months, and what we should plan for for FY 15, is a question mark at this stage. That's part of our environment as well.

As a result, just a few thoughts here. It's not meant to be comprehensive but I'm expecting that the Internet governance discussions may lead to unknown events, activities or processes – when I say unknown, unknown now –, unpredictable at the time we finalize an FY 15 budget, but that may nonetheless effect FY 15. It's not that it's necessarily a problem. A budget is a budget at one point in time, it's nearly obsolete the day after it's finalized – things change and that's fine.

The extend of the impact of events, processes, activities, relative to Internet governance or anything else – but in this case this is the one thing that we know is going on, but we don't know how it will materialize itself. It reduces our visibility or predictability, at least on that part of the activities of FY 15, and therefore I think we'll have a certain amount of difficulties in predicting what's going to happen then.

Now, in the next few months, are we going to have more visibility? Hopefully yes. Is it going to be helpful to be taken into account in our FY 15? I'm hoping yes, but I want to make sure we allow ourselves to have sufficient flexibility in our budget, to be able to take into account when they come, things that could not necessarily be planned. As a result, the first... Yes, [Raúl? 00:10:42], go ahead?

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[RAÚL]: You want us to ask questions now? You have two options of things that you see but you cannot really calculate. One is to increase your contingency. That somehow gives you the possibility to spend the money without additional agreements. Or, you can have a budget overshoot, and you can spend more than budgeted, but that means you'll have to request from whoever's supervising the budget to spend additional money.

Why would you choose for increasing the contingency portion? Because that's kind of inflating your budget with may I call it air? It gets bigger but there are no specified expense areas.

XAVIER CALVEZ: I wasn't specific enough when I laid this out. When I suggest to increase the contingency, it's actually within the same limit. Instead of having a contingency of, let's say, 5% of a total that's 100 – having a contingency that's 10% of a total that's 100.

Not increasing the total with the increase of the contingency, but increasing the amount of contingency and therefore reducing the amount of identified expenses. So it's planning for a lower spend so that we have more flexibility, if you see what I'm saying.

[RAÜL]: Okay, I see what you say, but I think in practice you will calculate your budget and you will add your 10% contingency, instead of calculating your budget and then from the 100% say, "10% of this 100% is contingency." Do you see what I mean? The difference is between

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adding 10% and having 110%, or having 100% and specifying – and that’s a contradiction – 10% as a contingency.

But okay, let’s not go into it too much. I’m in favor of calculating budgets rather narrowly, and then force yourself to either choose what you spend it on and what you don’t spend, or get permission to increase your expenditures.

XAVIER CALVEZ:

I’m not sure that everything is mutually exclusive, by the way, but I hear your point. I think we are at the stage where we can structure the process to allow for what I was sharing that I had in mind – in the sense that if we would normally have a 5% contingency and plan for 95% therefore spent, I think we can today have as an assumption to plan for 90% and have a bigger contingency. I think we can do that today. It’s a choice that we still have for now.

I agree with you that there may be circumstances in the development throughout the year that may force us to creep up – and I’m hoping we can avoid that, though I recognize it’s a risk – but I think we’re at the point where we can plan for it.

[RAÚL]:

I can see one recommendation from the SOP Working Group coming, and that’s a 10% reduction of your budget.

XAVIER CALVEZ:

Sure, and I can see how we can respond – proactively –, by justifying well why the expenses are what they are. Yes?

SPEAKER:

My name is [Jaagen? 00:14:51], I've been responsible for finances on the Board a couple of years ago. The discussion you're raising is always happening. It's always good to reduce a budget for whatever percentage, in order to achieve more efficiency, but what you do is you have an operational plan, which is really in this broad multistakeholder community – it's developed and then agreed. Based on this operational plan you're also having to do this.

Even the five-year strategy is implementing into an operational plan. That's why I think you have a wonderful, very effective mechanism on how to control finance and to find out how it most effectively is done. Sometimes you have to cut limits and say, "We only have so much money – that's why we cannot do this and this, or not yet do this and this."

We've always done this over the years and retrospectively I believe it worked rather well. There are always small weaknesses but it worked rather well. I'm very pleased to see what Xavier is doing right now with his effort to get the finances handled most effectively.

XAVIER CALVEZ:

Thank you. Chuck and then a very quick comment, because we need to move onto the substance of our planning process, which, by the way, is going to address a number of the comments that we're making now.

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CHUCK GOMES: Okay. Almost all the time I agree with [Rolaf] and in fact ideally I'd like what you're suggesting as well. But it looks like, based on our last call, those that were on the call that you hosted, that we're going to be in the situation we've been in in the past, where we haven't had enough detail to really adequately impact what the Board approves.

In that context, provided there are some controls for that contingency fund, and using it to maybe implement some community recommendations that got in too late to be in the final budget, I can see some value in that. Obviously the devil is in the detail, to use that expression, and so I am interested to see how that works, because if we're in the same boat we've been in in the past, we get the detail on the budget when it's too late to make any impact.

So if there's a larger contingency fund to deal with some of those things, that could be a positive. I guess I want to see where that's going.

XAVIER CALVEZ: Chris, and then we'll move on.

CHRIS JAPLO: Am I right in saying we haven't used contingency in the last few years, at all?

XAVIER CALVEZ: In the last few years we haven't, or to a small extent. Last year we didn't, the year before we have, and the year before that I don't remember.



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SPEAKER: We have used it this year.

XAVIER CALVEZ: Not in FY 13. This past year that closed in FY 13...

SPEAKER: Yes, but we are using it this year.

XAVIER CALVEZ: In FY 14, yes. I didn't say that we were not using it.

SPEAKER: Yes. We can come back to five years ago, but this year we used it for some specific topics and it's... I don't know them by heart but it must be no problem.

XAVIER CALVEZ: I can provide that information very easily but I don't want to get into that subject because otherwise we're going to miss going through the Agenda. To the comment you made a little bit earlier, our target planning process – and I want to emphasize target planning process – is, to your point, we have a five-year strategy with objectives and goals by year, with a financial quantification; meaning high-level financial statements that help measure the resources and the impact of the strategy.

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You can have a strategy to save the world but not necessarily the funds for it. So having financial statements at a high-level, that help in measuring the overall impact or anticipated impact of the strategy is important at that level. We will precise, in the next few weeks or months, we will precise what we think fits in each phase, what name we should provide to each phase and what the content of each phase is and the deliverables.

I recognize that a lot of us understand differently strategic planning, operating plan and sometimes budget – although I think there’s probably a bit more consensus on budget – but I think that we tend to not necessarily put the same vocabulary behind the same words. For ICANN we need to precise that information. This is the target process.

As we know, this year we haven’t had the strategic input, which is currently being developed through the strategic planning process that’s started towards April 2013 and is continuing now. We’ll then plug in the input of the ICANN Strategy Panels and synthesize all this information between February and April, basically, with community input, the public comment process, following the ICANN Strategy Panels. We’ll then be finalized towards April or May with a Board vote.

We don’t have that information right now to enter it into the FY 15 planning process, which is why we’re going to have an intermitted one. So that’s the target process, which we’ll target to implement for the FY 16 planning process, which we’ll do during FY 15. Let’s go over the high-level planning of this FY 15 year.

Here, as we were just indicating, we have the ICANN Strategy Panel process, a draft produced in January, a public comment process period

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discussion, finalization, and a final document approximately towards the end of April. That's what we just said. Whilst that happens we'll develop the FY 15 up-spend and budget. We'll talk a little later about the additional SO and AC budget process, which will run from early December to the end of March.

Then to try to take into account the fact that we don't have a strategic plan to go by, that provides objectives, priorities for FY 15, the approach we're suggesting to retain is to develop what I've called here an Operating Plan. I'm hoping to not create more confusion by using that word. We'll develop an Operating Plan that sets objectives for the end of June '15. It will have a high-level – and I want to make sure we have this discussion, Chuck – resource measurement; department functions.

This is what we want to get accomplished by the end of June, and this is the amount of resources that we're expecting it to cost. That set of objectives. This is about the activities of each function of the organization, with either recurring activities, managing AP, managing the budget process, outreach, HR operations and so on, or/and laying out specific projects that we're expecting will need to be carried out during the fiscal year.

On a function-by-function basis, setting the objectives, really the objectives in terms of where do we want to be at the end of June? What do we want to have accomplished by then? Laying this out at a level of granularity, we'll look at it a little bit later, that I'm expecting it to be basically by function of the organizations' global stakeholder engagement operations.

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Susanna is here, Susanna is the scope of responsibilities finance, HR, admin, project management, meetings operations – so a few departments. For each of these departments having a set of objectives – what do we want to get accomplished? The objective, the assessment of the metrics, whether they're quantifiable or milestones to achieve by the end of that period, and an assessment of the resources associated with those objectives.

This is a first step. It's not the full detail, Chuck. What I want us to then do out of that is understand these objectives, be able to present them to the community to receive feedback through a public comment process that allows to say we understand what's being done, we agreed it should be done... But this we don't understand. What's it going to entail? Or, we don't agree necessarily with the object that's set for that function, and by the way, where is another subject that I don't find in the objectives of that function?

So then we can at least have a consensus on what the objectives of the organization are over the next 15-18 months. It's not yet the details. It's before we build the details, so that then we have a chance to effect what comes into the budget on the basis of that input.

I want to be clear that the real purpose of this is to allow to have a... I wouldn't say strategic, but at least a tactical discussion as to what goes into the activities of the organization and that we allow the community to be able to have an understanding of it and input into it before we develop the detail.

Once we have the detail, which is a long process of production – it's not a week, it's a long process of production – once we have the detail, it's

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too late to change anything significantly. I want to emphasize that it's very difficult, as you probably know, to structurally change something that's been developed in a very detailed manner, especially when we're finding ourselves here. Chuck?

CHUCK GOMES:

Thanks Xavier. Correct me if I'm wrong, but this doesn't really look any different to me than what we've been doing for many years, where we had a budget framework that had just high-level information, and then later about the same time as this, we got a budget and it was too late to make meaningful comments at that point because of Board approval.

I guess my question then is if I'm wrong on that, how does this... What I'd like you to explain is how this differs from what we've done for many years?

XAVIER CALVEZ:

What defers from this previous step... I do recognize and I do agree that the structure of the process is similar to what we've had in the past; with the framework high-level and then the budget more detailed. The difference is that the information here is aiming at setting objectives, as opposed to displaying, at a high-level, without details, a level of effort. It's a little bit – well, hopefully fundamentally – different in the sense that when you formulate a level of effort without details you don't understand what the effort is.

In order to understand what it accomplishes you need to go to the details, which I think is what you've been saying for a long time. If you set an objective, then you can measure the resources that are required

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to achieve that objective. Basically though, that objective is the rationale as to why you're spending the money. This is what I want to make sure we give ourselves the opportunity to produce this year – why we are doing this? To achieve that objective.

We haven't had that information in the past and we need to be able to provide the community, from just a purely simply transparency and accountability perspective, "This is why we're doing this, for that objective." So it's a challenging exercise. This is the main difference between the process next year, this coming year, and the previous versions.

I agree with you that the high-level first phase, public comment, the detailed budget, public comment, looks very much like what we've done not last year but the years before. I agree with you. You're right. The difference is to define objectives and out of the objectives be able to formulate the resources. Before, we've only formulated the resources, and at a high-level, and not necessarily been able to provide at that stage the information that allows to really weigh into your point.

Then you have it there – not necessarily as satisfying as you would like – but you have some of that there, and to your point, it's too late. I want to try to allow the discussion on what should or should not be in the budget when we develop it, so that we can then do something about it. Because here we can't do anything about it anymore – it's too late. Yes, please?

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CHUCK GOMES: Coming back to the contingency fund – if a large portion of that contingency fund was to allow for addressing public comments that came in too late to make a change to the budget, that’s where I would see some value to that kind of approach. Does that make sense?

XAVIER CALVEZ: I think it’s a good idea. I’m not expecting the input from the community to only be about what’s not in the budget, right? Because if it’s just to increase the amount of resources, I’m not sure it’s necessarily very productive. I’m not saying it shouldn’t be about what’s not in the budget and should be, but it shouldn’t be just about that. Tijani?

TIJANI BEN JEMAA: I think that the origin of the ambiguity came from the terminology – you’re still calling it an Operating Plan whilst it’s not. It’s defining the objectives, and that’s far different from an Operating Plan. This year, Chuck, we will have more compressed time. We will have altogether, at the end. Before it was better – we had at least the framework before, and we could discuss it, we could give inputs. This year we will not have it.

More than that, there is less interaction with the community than last year. I come back to the Operating Plan – the definition of the objectives. What is your starting point to define those objectives? You don’t have anything to define them. From where are you bringing them?

XAVIER CALVEZ:

To your point, the input that the various functions of the organizations are going to take, is pragmatically and simply the activities that are currently happening; that are currently being carried out. One: the old strategic plan. Two: and we will obviously have a certain amount of communication during the process – probably a relatively informal but obviously more formal once we have the draft here.

We'll try to also take into account at that phase – which I recognize is not perfect because it's already at the end of that phase, right? – but nonetheless, take into account in the late stage the input from the ICANN Strategy Panels. But honestly, I'll be facetious a bit for a second. In the past years I don't believe that the output of the strategic process, the way it was formatted, was actually allowing to provide input into the Operating Plan.

By the way, you guys have consistently indicated that there is no clear link between the strategic planning process and the budget. I think that's part of the reason why that's the case. Obviously what I've said is not an ideal situation. This is the consequence of finding ourselves in this interim period again, while this strategic plan is being developed.

TIJANI BEN JEMAA:

Xavier, in the past we always had the strategic objectives, and those strategic objectives drove the operating planning in the past. So we didn't work in the blind mode as we'll work this year.

XAVIER CALVEZ:

[Rolaf]?



[ROLAF]:

I think you have to be a bit careful with your communication, Xavier. If you call your present strategic plan the old strategic plan, then everybody thinks that we now have no strategic plan, but there is one. It's not perfect – it's going to be replaced by another one, but if you call it 'the old one', it's a kind of disqualification to use it for anything anymore. So I'd be careful with that.

I think one of the things that... SOP made a lot of comments about the lack of connection between the strategic plan and the operational plan. You can still do that. You can improve that connection by making sure that the objectives that you're going to formulate, some time between now and January, are derived from the existing strategy. Of course, if you see a new strategy coming you can also take objectives from there. But it was the lack of objectives that made that connection so poor.

It could have been better already, with the existing strategic plan. Can you help us a bit in describing what is going to be in this draft Operating Plan? Is it just going to be a list of objectives, or is it already described how you think you'll obtain those, or...? That might help, I think, in the discussion.

XAVIER CALVEZ:

What I've called Operating Plan – and I do agree with your point Tijani, of clarifying the vocabulary – the Operating Plan phase that was on the slide... I'm going here [Rolaf] because I'm expecting that this is starting to give an answer to your question. By function we have about eight functions in the organization.

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What I'm calling a function is GSE, Sally's team with the original VPs, that's one, GDD is another, led by Akram, the Operations Division led by Susanna, that has basically the infrastructure, HR, finance, project management, meetings and so on, is another function. That's a third one. Governance, which includes legal and Board support, is another one...

So at that level, the objectives to be accomplished by the end of June 2015 – and we do expect to use the structure of the information that we have, and that we've been using in that task to formulate this –, measuring the resources associated with those objectives, either in total for a department or more specifically for a given objective, if it can be carved out. When I say resources I mean a head-count and dollars. Yes?

CHUCK GOMES:

Just a very quick question. There will be some dollars in the Operating Plan?

XAVIER CALVEZ:

Yes. These objectives will be distributed across the various activities and projects of our organization. If I take the Finance Department – objectives for the Finance Department at the end of June – we have approximately ten areas of activities. Managing accounts payable, managing accounts receivable and billing, general accounting, managing investments, and so on. I won't list the ten but that's the level of granularity.

For each of these areas, defining an objective by the end of '15, and defining as a result the resources for each of those objectives, measuring

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the dollars for this part of the organization. Then, accumulating that across all the functions of the organization so that we have the high-level estimate of resources associated with a set of objectives.

It's not the full detail, but I'll tell you that I'm convinced that this is the level of information that I believe input can be provided from the community on, "Provide more clarity in this area," "This appears missing, where is it?" and "This appears that it's in there but it shouldn't be."

Now, I don't think it's necessarily a perfect amount of data, but I think this is a step that allows to actually rationalize what the budget of ICANN is trying to accomplish, how much it costs, and at a stage that allows the community to provide input, and that allows the staff to take input from the community.

At the end of the day, I don't want – and I know you don't as well, because you've been frustrated in the past – us to find ourselves again in the position of receiving public comment on the 20<sup>th</sup> of June, that we can't do much about. I'm not happy with it either. Do you see what I'm saying?

CHUCK GOMES:

If with that data, the next fiscal year's financial forecast for each of the functions, and whatever level of detail we go to, we also had the data of the current year – the one we're still in – and how we're doing, what we're projecting, it gives us a frame of reference to see whether or not... You may be projecting less, you may be projecting more. That would be very helpful it seems to me.

XAVIER CALVEZ:

This is how it's going to be built, by the departments of the organization. We are trying to finalize what we're calling internally the Q1 forecast. The Q1 forecast is the full-year forecast based on the Q1 actual data. Q1 4S is July through September. I don't think we're going to have the Q2 forecast finalized sufficiently in time for that phase to be completed with it, but we're going to use the Q1 forecast, which basically again gives 12 months of financials, spend and revenues, on the basis of the Q1 actuals.

That's as current as we can have it for the time being. We're going to use that 2014 basis of spend. Each department is going to use that tool to determine the objectives that they are going to try to get accomplished by the end of '15. So we need that 2014 reference point. We'll have that information. Any further questions, thoughts or comments? [Rolaf], I see you thinking? Okay.

Susanne, I'm assuming you'll jump in any time you want. What did I pass? To the expense of time let me go to the next slide. The budget will have, as we've done this year but probably in a more detailed fashion than what we've done this year, [inaudible 00:44:50] reconciliation, variance exercise between FY 14 and the budget.

Of course the budget – and I should have laid it out here – will also have a check of what did the Operating Plan have that's not in there anymore? What is in there that was not in the Operating Plan phase, and the summarization of the public comment input that was provided and that's been reflected, or not, in the budget. So comparing the output of the Operating Plan phase with what has made its way, or not, into the budget.

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It will of course be more detailed, with a breakdown by the portfolio projects and the task categories, costs, and spend by function, which we have not provided in the past. Yes?

SPEAKER: Just a short question, Xavier, you mentioned the Operation Plan very effectively several times before. Do we have things in that list, out of the Operation Plan, which you currently cannot do with your existing budget? Just to see what future challenges we have, because the amount of money we have is not as much as it might be, or should be. So if you don't have that list, maybe you have in mind what, for example, we cannot do?

XAVIER CALVEZ: I need to go through my mind... I don't have a list now, but through the process of development with the departments, part of the in-depth exercise is what department submit as their budgets as well, so what is this accomplishing and what are we now not able to do? So the process enables that do I have a list now of what the last process excluded? I don't have it in mind, but...

SPEAKER: Just a comment: maybe for future discussions of this type it would be helpful that you had such a list, because it would communicate to all of us what, for good reasons, we cannot yet do even though it would be good for the organization.

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XAVIER CALVEZ: I think that's a very good point, and I think out of the first phase that I've called Operating Plan, I think it would make sense to say what we've not put in there because it doesn't fit. That obviously should be input that the community can provide as well, to say, "Well, we think that should be fit into the budget instead of something else." I think that's a very good point. Thank you for that. Chuck?

CHUCK GOMES: I think you used the word but I don't see it on your chart, of 'task level'. Again, you've made very clear that the Operating Plan is not going to get down to a greater level of detail, but what we ran into last year is, even going into your system and looking at all the detail there, we couldn't see down to a task level and in some cases I couldn't really tell whether there were sufficient funds or not, because I couldn't see what was allocated by task.

XAVIER CALVEZ: So, vocabulary again. What we call the 'task level' in a task is quite detailed. It's quite granular. It's, "Send the audited financial statements draft to Legal for review." That's the task level. I think what you're thinking of it probably the project level. We've been working with Carole Cornell to structure the data in a task and to try to harmonize the level of granularity across all the organizations.

We will need to really re-determine what level of granularity we manage to provide during the operating plan, and what level of granularity we manage to provide during the budget. If I take an example, just to make sure I've understood your point correctly, last year when we provided

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the 150-program level, there was one program therefore – not necessarily further detail in terms of dollars – that was called ‘Outreach at \$5 Million’ begs more questions that it gives answers.

I think that’s the type of thing you have in mind, right? That’s what we want to try to improve next year with a task.

CHRIS JAPLO:

Thanks. Chris Japlo from the BC. I think parallel to everything we’re doing here, it would be very useful to have a dump of what I call the [ATAF? 00:50:34] spreadsheet. This is sort of leading on from what Chuck was saying. It would be for whatever point we can. You mentioned the \$5 million and the other one that comes to my mind is the digital engagement, which I understand is \$1.9 million, and I can’t find it in what I see as a task on MyICANN at all.

So if you could give us something like that, but even better, one-level down at least, and a dump of where we are at that point in time, and we’ll churn through that data. Thanks.

XAVIER CALVEZ:

Understood. Thank you. We have 20 minutes. I want to be able to spend a certain amount of time on the additional budget request process. Before I get into this, a couple of more generic comments – this process is allowing the various organizations of the community to ask for funding of specific actions or activities. We put this in place, I think, three years ago.

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I'm viewing this – and that's why I wanted to be able to discuss it with you this morning – I'm viewing this process, and I'd like to migrate it to an exception process rather than the rule. What I mean by that is if an activity that's been requested is a recurring activity, after a year of having funded it, if we have, and tested that activity, we should determine whether it should continue and therefore should go in the base budget, or it should not continue and it's not even necessary to request it any more in the future.

It shouldn't stay under that process of 'additional' requests. If it's a project, what I'm hoping is that the planning process role, strategic and operating planning process – the type of project that we're going to have in the future is going to enable that if there's an outreach activity that's of interest or is targeting a specific portion of the community, or a specific region, that this outreach activity would have found its place during the development of the strategy for that region.

Or, for that community or that group, during the development of the strategy or during the development of the operational budget, in communication of the staff who's in charge of that area, to integrate it in the budget because we think that's part of the strategy, or not having integrated it. That's it.

If we can get to that process then we'll find the way into the process of additional budget requests and it should become really the exception of activities that are too specific or have not been included in the budget. But hopefully it wouldn't be the first time that this request will have been formulated.



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So I'm hoping we can migrate it to a more exceptional process, and we will try to carry it like that in the future. I know that, for example, summarizations have formulated the same request twice, for example, over the past two years, and we've not suggested to fund them. This is the type of discussion I want to have with those organizations as well; to try to determine if it's even useful that we continue submitting requests on those.

Now, how we address the subject of the request is something that we need to look at, but I think that bit by bit, the activities that are in this list should become a little more exceptional. If we don't manage to capture the subject through the strategic development plan and the operating development plan, with the staff, then this process can help in catching it. But I'd like it to be a Plan B rather than a Plan A. That's basically the point. Yes please.

CHUCK GOMES: So are the criteria going to be developed by staff, or staff in conjunction with community?

XAVIER CALVEZ: It seems that staff developing a suggested approach in submitting it to the community to comment on is the mode that works best. We have a list of criteria that we developed during the process last year. Rob has concentrated that activity and we have a fairly detailed document. We're probably going to send it out next week to the Budget Process Working Group.

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That includes all the Chairs as well. We can say, “This is what we’re suggesting to use. Please provide input as to what’s not there, what shouldn’t be there, what should be formulated differently,” and we’ll try to finalize it towards the end of December. I didn’t want to create a relatively long and heavy process of public comment for the criteria for that step, but nonetheless I’m hoping to get feedback and at least a consensus of, “We can work with that.”

Of course we’ll try to take into account, during the phase of evaluation, all the comments that we’ve received on the list of criteria. But we have a document to share in the next week. Yes, Marilyn?

MARILYN CADE:

Thank you Xavier. I’m the CSG Representative from the Business Constituency. As many of you know, I’ve been involved in ICANN’s budget process before ICANN had a budget. We really are making a lot of progress, I think, but I want to identify what I consider a significant gap right now, and I’m really glad a deal is here, because I’m going to make a comment about a very strong gap that’s concerning me, so that as we put the process together about how we take input from the SO/AC/SGs, it’s not...

Xavier’s heard this before but I’m going to say it again – budget input cannot come from the gNSO Policy Chair. That is not the Chair of the gNSO. The Leadership Groups of the constituencies – we all have ex-coms and we have people who pay attention to this, so we’ve got to make sure that we’re distributing the request for information so that we get the right information coming in.

I say that because we've also introduced now a significant shift toward regional strategies, and at least for the business constituency we need to be able to bring business people more into the participation. Right now we don't have a good mechanisms of ourselves engaging with some of the new, growing parts of ICANN, which we may identify as a gap on our part.

But I'd say, as we develop this issue about funding support, Xavier, I'm a little bit concerned about this exception process working this year. I want us to go slow enough on it. We're very disappointed about not having some of the things we asked for, that we consider critical to our building the capability to receive the new players, and none of that's getting funding.

If the interlocutor is staff, then staff isn't understanding our needs, or they're not being heard when they get into the debate with the bigger voices. That's why I'm glad Susanna's here. But I think that's a gap, and I bet it's a gap for a number of other people here, as I see the ALAC sitting here, in terms of there are other gaps that I think we're all continuing to work on improving, in terms of reporting and accountability.

But this is a decisional gap to me, where the community is saying we need certain things and the staff is giving us things that we do not consider to meet our needs. Money is going to those things, which means it's not going to what we need, and we need to close that gap. I'm going to use an example. We had a breakfast in Beijing for business outreach. We just had another breakfast.

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There was one person from the local business community at that breakfast. That's a meeting room, that's money, that's time. I want to be as welcoming as possible, but I want to do things in a more cost-effective way, so that money can go towards supporting the things that we're trying to build.

XAVIER CALVEZ:

I'm not hearing from you, Marilyn, anything that I don't think we can address. What I was saying is that I would like that we can move the process to a more exception process, because the recurring activities can be captured upfront through the budget process of the functions that would normally, naturally be the host for the activities that are being requested. If they're not, then I think this process can help in catching them.

I'm not suggesting to only look at exceptions today, but the bottom-line is that if you are requesting an activity that's not in the plan of the outreach organizations, for example, then it will be formulated, reviewed and potentially included. But I think that it would be better and more effective that that's what we need to enable, that this activity of outreach would be effectively discussed with the staff, through strategy, through the community, as a result of a strategy for a given region or a given type of constituency.

Or, for the businesses, for example, and that the activities that you have in mind, that are more cost-effective, can be part of that strategy, and therefore it's being funded and therefore you don't need to request it. So this is the model that I think we need to move towards. Until that's

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the case, we have this process. That's my point. I'm hoping that clarifies a bit what I was intending to say. Yes?

ROBERT GUERRA:

It's Robert Guerra with SSAC. What I'm hearing – and I guess from my perspective – is that if there's going to be a shifting to more of an ongoing operation, and maybe a reduction in the opportunities for additional community budget requests, that that needs to be communicated in a very proactive fashion. Some communities are better to react to that, maybe others are not.

As well as if there's any shift in the amount of funding that might be available from the community request, if that goes down or... I'm hearing that going forward over the next year, year and a half, there will be additional activities, change in the contingency fund... So I think an update to the community, as you do already, but having them be more proactive, and have a discussion with them as to when that can happen.

I think that would be important. It is a short timeline and I think the SSAC is fine but I know some of the other stakeholder groups have activities over the next couple of months that might be a challenge for them to react in a proactive fashion. So that will be a change that I think needs to be communicated.

I know that's been mentioned, but I just want to make that point: yourself and others that are here really need to make sure that people know that this change may come, and communications is key, because otherwise the additional requests pool... They've tapped into it in the past and it may not be available.

XAVIER CALVEZ: I want to be very clear. I'm not saying that if we funded \$600k of actions last year we're only going to fund \$300k of actions next year. Understood, and I appreciate that, and to try to address at least with this group, this perception gap, I'm not saying that. I'm saying that we need to move towards a process and a mode where the activities that are currently requested in the \$600k can be integrated into the plan that's budgeted as part of the base budget, so that they don't have to be formulated.

So I'm not... No-no, I agree and I think this is a good point and that's helpful. Thank you. Yes?

KRISTINA ROSETTE: Kristina Rosette, IPC. The question and suggestion I have – I apologize if it's something that you covered at the beginning. I was actually at the breakfast that Marilyn was talking about and we were waiting for businesspeople to arrive... First off, I'd like to note that I completely agree with many of the comments Marilyn made. I think there's one request and one suggestion.

The request would be in terms of this exception process. If I understood you correctly, I think this is the direction that ICANN's heading in – to introduce it slowly. To not go from zero to 100mph – to phase it in over time.

The other thing that I think would be particularly helpful for the IPC, and maybe more broadly to the CSG and actually beyond, would be to have

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an opportunity, perhaps as we're developing our budget requests, to perhaps have a chance to talk with you and your staff to say:

"This is what we're thinking of, this is the bucket we're anticipating putting it in. If you know now that this is a request that would be rejected because we're putting it in the wrong bucket, or there's been a decision made that these requests just aren't going to be approved, that's helpful to know. We may decide to still go ahead and do it, but at least there's some expectation."

And similarly, I think, after the budget requests are put in, it would be helpful for after the initial review – and there's been time within your department for folks to consider them and think about them – to set up a call with the requesting entities, to say, "Okay, let's just go over these. We want to make sure that what we think you're asking for is in fact what you're asking for, so that we're responding to the requests that you're making."

XAVIER CALVEZ:

Thank you. In one of those slides, which I've not gone over yet, there's that question, as to whether we can have, right at the time that the organizations are ready to submit their requests, a conversation, beyond just submitting a format, that's going to help us better understand the rationale and the activity, and to your point, evaluate whether it's already covered somewhere else. Or it should be communicated to the part of the staff where that activity would normally be carried out.

To also have another communication point after the results, to talk about how we implement those actions that have been funded, and

have a direct conversation on that, because I know we've struggled with gaining momentum on implementing those actions that were funded – and also explain why these actions that have been requested were not funded.

So I take your point. I was pointing to Rob because he and I have had a conversation, and I asked him, "Can we try to organize this?" We're struggling a little bit with the bandwidth requirement associated with that, because what you're asking is obviously not something we'd answer only for your group – we'd answer it to everyone. That's therefore between five and ten calls, and it's a demanding exercise.

I'm not saying we shouldn't do it. Rob and I have a call this afternoon at 3:00 to try and plan for exactly that, with the person that's working on my staff on the budget process. That's exactly the purpose of that call. So we're conscious of trying to have a better and more proactive and interactive communication about this process.

It's just a bit demanding in resources. But I understand your point. I think I agree with the fact that it would help, so we'll try to go down that path.

KRISTINA ROSETTE:

If I may... Rob did have a call afterwards, I think, with the CSG, that I thought was helpful. One thing that left a bitter taste in our mouths over the budget process was inconsistency in application and approval for similar requests among... Yes. I think it's really critical that to the greatest extent possible that those be treated consistently, and if they're not that there be a published explanation as to why.



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Otherwise you're just left to imagine what the reason is, and generally the outcome of that is not going to be positive.

XAVIER CALVEZ:

I understand and it makes sense. I'll tell you – to the expense of sounding a bit dramatic – that my biggest focus, when reviewing those requests, is fairness. Why? One, I shouldn't be looking at content. Why would, or should, the CFO have a valid opinion on whether or not a breakfast should happen in South America or not? I shouldn't. I don't want to look at content and I'm not qualified to.

What I try to do in the group that reviews those requests is try to address that. Certainly we're not perfect at it. We've realized afterwards, "Oh, we missed that one, and yes, it's inconsistent." So we do look at that, and we'll try to make sure that we don't have too many exceptions to managing, to being consistent. By the way, consistent and fair and relative notions.

But at least what we are going to try to do a little bit of a better job at is ensuring that we don't have inconsistencies. We've had at least one that I remember this past year. Also, improving the formulation of the rationale for the decisions, and I think it's going to help, doing that. By the way, when we do that, sometimes we realize that we have created inconsistencies. I'm thinking that if we can implement the call on the results... First of all, the call on once you've submitted your requests and we know what they are, trying to understand them better is going to help us avoid that.

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Then on the backend we'll also be better able to rationalize and formulate the rationale for the request. So I'm hoping that the little bits we're trying to do are going to help to do that. Also, the criteria that we're going to share, I'm hoping is upfront is going to help us categorize the request in such a fashion that it'll be a little bit easier to say, "This is the same thing."

Yes. We are at the end of the scheduled session. I'd like to mention two things. This is going to take me five minutes. Maya, can you put the Annual Report on the screen please? You know that ICANN produced an Annual Report, which is coming towards the end of its development and preparation. It's going to be issued soon. It's an Annual Report on the past year's activities.

FY 13 is the Annual Report that's currently being finalized. Historically, from a financial standpoint, this Annual Report included a PDF of the Auditor's Report, which includes the Auditor's Report, the financial statements and the notes to the financial statements that were audited. So we've done that this year again, but we've also included a financial overview section in the body of this Annual Report, in a more similar fashion to what other companies do – notably listed companies.

It's a relatively short section, but I think it's a reasonably good start and it helps in providing a bit of understanding in addition to the audited financial statements, which don't provide any comments. This section provides a little bit of comment on it. I will not go into the content but I want to show you what's in there. This is a preview of it. It's not yet finalized. The Annual Report starts with a CEO letter from the Board Chair, which if you've seen past versions you know.

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Next pages... Highlights of the year. Please go through. Page 8 of the Annual Report, at least in the current draft, we start a financial overview. It starts with what we call the 'funds under management'. You have a graph here that shows the position of the funds under management at the end of FY 12, at the end of FY 13 and at the end of September '13. This is the end of our fiscal year, but this is the end of September. That provides the most recent set of information.

Funds under management includes the new gTLD unspent funds, the reserve fund of ICANN and the operating fund of ICANN, which is basically cash on hand. It provides an understanding of what that is, what's mainly impacted... What events have impacted these funds over the past year, and it provides a certain amount of comments on that.

Left page, right page. A cash-flow synopsis. We started with this amount of funds. We have collected money, spent money. This is the position at the end of 2012. We have collected money, spent money on a number of things, and this is the position at the end of 2013. Providing a certain amount of comment on that.

For example, we've collected money from our contracted parties – that's the \$16m that's there. We've spent money with vendors. That's the \$100m that's there. The \$103m includes, from memory, \$64m for the new gTLD program. We've paid employees. We have a number of other transactions; capital expenditures and so on, and this is our end-of-year position.

So it provides, at least, a certain amount of understanding at a relatively high level of what's affected our cash over the past two years, in this case. We're looking at two years, and our annual report looks at the end

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of FY 13. Statement of financial position. In other words we call that a balance sheet. It's relatively high level.

SPEAKER: Xavier? Sorry to interrupt. How much time do you need, because I'm overrunning and I have another meeting?

XAVIER CALVEZ: I need two more minutes.

SPEAKER: Okay.

XAVIER CALVEZ: The balance sheet there reflects the same information that's in the Audited Financial Statements, but with a certain amount of comment. There's also the Statement of Activities, or the PNL. Also in the format of the Audited Financial Statements were a certain amount of comments. That's the end of the financial review section. Your input on the information that's there, or is not there, would be helpful.

This is a relatively short section for an Annual Report. Sometimes companies have a lot more detail than that. This is a first take at it, but I think it helps in providing to a wider audience a certain amount of information. The last comment I want to make is that we have now produced, with the Board and the Finance Committee of the Board, four quarterly financial reports, over the past nine months.

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We've provided them with the Q2, Q3 and Q4 FY 13 Reports. We've just provided them with the Q1 FY 14 Quarterly Report. This is a Financial Statement Report that provides a certain amount of comments between actual and budget on what's happened during the first three months of the year. We're going to publish this. My intent is to publish it next week, but I need to finalize the planning with Cherine.

No, this is the Annual Report. I'm talking about a separate Quarterly Financial Report, that we've produced to the BFC for the past four quarters and that we're now going to publish every quarter. This one? It's yet again a draft. It's the Annual Report. Duncan was here a little bit earlier. I don't remember the exact date of publication but it's in the next few weeks. It's not yet available. You have a preview of it. That's it.

Thank you for your participation. Sorry that we started late and finished late, for good reasons, I think. Thank you for your participation and we'll follow up more.

[END OF TRANSCRIPT]