HYDERABAD – Budget Working Group
Tuesday, November 08, 2016 – 17:00 to 19:30 IST
ICANN57 | Hyderabad, India

XAVIER CALVEZ: Hello. We're going to start.

Hello everyone. Welcome to another of our budget meetings. We have, I think, a few people on remote participation with us. Jessica do you want to please indicate who is on the remote participation so that everyone is aware?

JESSICA: So we have Linda Chin, Philip [Du Bois], and… No, Tom is in the room.

XAVIER CALVEZ: Linda Chin is an ICANN employee in the Singapore office. May I ask that everyone introduce themselves? This is an open session, but for those of you who are not usual members, please let's introduce ourselves so that everyone knows everyone. Can we start with you Mary?

MARY: My name is Mary [inaudible].

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

UNKNOWN SPEAKER: [Inaudible], ICANN staff.

SEBASTIEN BACHOLLET: Sebastien Bachollet, ALAC member.

UNKNOWN SPEAKER: [Inaudible], IDN.

JENNIFER GORE: Jennifer Gore, ICANN staff.

UNKNOWN SPEAKER: [Inaudible], ICANN.

CHRISTA: Hello everybody. This is Christa [inaudible] from the ICANN organization.

BECKY NASH: This is Becky Nash from ICANN organization.

JESSICA: Jessica [inaudible], ICANN organization.

LAURIE:	Laurie [inaudible] from the International Trademark Association and the IPC.
CHERYL LANGDON-ORR:	Cheryl Langdon-Orr, ALAC At-Large.
CHUCK:	Chuck [inaudible], Registry Stakeholder Group.
UNKNOWN SPEAKER:	[Inaudible] ISPCP.
ALAN BARRETT:	Alan Barrett, ASO.
ALEXANDER:	Alexander [inaudible], dot RS.
XAVIER CALVEZ:	Thank you very much everyone. I'm Xavier Calvez, ICANN staff. We will start by reminding those of you who know and informing those of you who don't, of what we are doing with this working group. It's the sixth instance, I think, of it, as of now. Can you give me the next slide please? We are going to spend just a few minutes reminding of the purpose of this working

group and how it works. We will then spend time with the team that works on funding projections and models with [Sirus?], Christa, and Jennifer, and Tom is also in the Adobe Room. And we'll talk about the revenue, the volumes that we are seeing in terms of transactions and contracted parties, which are the drivers for our revenue.

We'll have a quick review of our financial statements at a high level for FY 16 and the most results of Q1 for the fiscal year 17. We have then whole section on the budget process for FY 18. We will spend some time also on the PTI budget that has been published and is currently on public comment.

And we'll talk about next steps in Q&A. And of course, this is meant to be an interactive session. We are here to be able to speak very freely about the entire set of budget documents or financials. And you should feel very free to jump in at any point. It is meant to be interactive, and we'll talk about that just now.

Can I have the next slide please? Next. Okay, so as I said, we created this session for the first time in Singapore, ICANN 52 from memory. And the purpose is to give ourselves, as a community, a platform to interact on budget assumptions to have a very open, easy, communication about the budget. If you think about the public comment process, which is a very defined and non-interactive process, this type of form is meant to be

interactive, allow you to ask us questions on any specific topic of the budget, for us to provide you information, but also ask you question, what do you think on the many topics?

And this interaction then helps us develop a budget for the next year, that has already received a certain amount of your input in that you have already obtained a certain amount of understanding before it is being developed, and before it is submitted for public comment.

So, we are now early November. We are entering the period during which the budget owners within the staff are going to develop their operating plan for the fiscal year that we are planning for, and the corresponding budget, which basically is the quantification of that operating plan.

So, this is a good timing to be able to think about assumptions, to think about the type of information that we intend to produce and receive your input on that, so that we can take it into account in the development that is upcoming.

The desired outcome is, as I've said, a mutual deepened understanding of the overall planning process. Also, a good understanding of how we look at it from your perspective, and vice versa. For us, it's very important to have your unfiltered feedback on formats, on assumptions, on expectations, which

help us therefore develop a budget that is more aligned to your expectations as well.

Any questions, or input, or comments on that? Okay. I note that we did a quick roundtable on our names. We have Tijani Ben Jemaa who has arrived, Elise [inaudible] our president of PTI, and we…

UNKNOWN SPEAKER: She has the presidential jacket, you see.

[SPEAKER OFF MICROPHONE]

XAVIER CALVEZ: Freshly elected. And we have [Jemson Olivier?] who just arrived as well. Thank you very much. On that, I will let… Just to… Is there any question on your end, Phillipe or Linda on the phone?

No, okay. So let's start with looking at our funding, and this is going to be the opportunity for us, sorry, to lay out the historical amount of revenue by category, just to put that in our mind as we look at possible assumptions for the revenue of FY 18 in our discussion together.

And of course, this is in the context which you will see, where we have, of course, relatively little information on FY 17, because we're just a few months in. Nonetheless, we have data available

that we should be using for that purpose, and your input will be helpful. And Becky is going to run through those slides for us.

BECKY NASH: Thank you Xavier. And for the record, this is Becky Nash from ICANN Finance. So, next slide please. In this… Thank you. In this section, we're going to be covering the FY 16 year end funding. And just a note, we are using the word funding for our support and revenue, and that is a change we are making in all of our management reporting.

So, on this slide, this is our full year, 12 month, FY 16 funding, or revenue. This is a slide that comes directly from our quarterly stakeholder call, which is a presentation that is available quarterly on our website. Also live and then recorded and available.

So, these next two slides, we're going to cover the financials related to funding with some trends, and then our colleagues here, in the room, [Syrus], Christa, and Jennifer, are going to talk a little bit about the trending of volumes.

So, on this particular slide, again for 12 months ending our fiscal year of June 30th, you can see that we have revenue highlighted by registries and registrars. And on this slide, on the left hand

slide, we have all the transaction based fees, where these amounts are driven by the domain name registrations.

And at the top of the box, we can see that for the 12 months ending June 30th, 2016, we have 53 million related to transaction based fees from registries, or 42% of our revenue, or funding. I have to catch myself. And at the lower end of the slide, you can see that from the registrars, we have transaction based fees of 36 million, or 29%.

On the right hand, we have revenue that's driven by the number of contracted parties. So, from registries, we have the per TLD fixed fees at 22 million or 17%. And at the lower right hand side, from registrars, we have the fixed fees, application fees, and accreditation fees of 13 million, or 10%.

And again, full year revenue for 2016, 126 million.

XAVIER CALVEZ: Just a quick comment. The part of our revenue, or funding, that has increased the most radically over the past few, couple of years is the fixed fee, per TLD fixed fee, which is the $25,000 per registry, and you know we've gone from 18 registries to about 1,000. We'll see those numbers later. So that's the part of our revenue that has grown a lot. Yes, [Rolof?].

[ROLOF]: I think I'm suffering here from the language barrier. So, could you explain to me, or maybe to us, what, in American language, the differences between revenue and funding?

XAVIER CALVEZ: You're going to like it. So…

[ROLOF]: I'm going to like it?

XAVIER CALVEZ: Yes, you're going to like it.

[SPEAKER OFF MICROPHONE]

I know already…

UNKNOWN SPEAKER: From a French person to a Dutch person, for an American audience.

XAVIER CALVEZ: So, revenue versus funding. Funding is commonly used in non-profit, in the non-profit environment. And I think the biggest difference between funding and revenue is that revenue is the compensation of a service or a product rendered, that is the

subject of your trade and activity, and that it has cost of sales in front of that offset partially, hopefully, the produce of your sales.

The funding can be disconnected from your costs, from the perspective, as a non-profit, you have a mission. Your costs are the costs of delivering on your mission. And your funding is the source of income that you get in order to deliver your mission. But the funding could be independent in quotes, from the expenses of the organization.

Revenue is a revenue for service, or for a product, that you have the cost of sales in front. I told you, you were going to like it.

[ROLOF]: So, there is not such a big difference in the languages here. Is that not a risk that your, our community is going to trigger on the first bit of your explanation? That the income, if not automatically linked to services rendered? Because I would say that most of us expect that the money we pay to ICANN is somehow used for providing us with services.

XAVIER CALVEZ: And I think that this becomes the question of whether the activities of ICANN or a direct service rendered against the funding, or are a service delivered in furtherance of the mission. If you look at the engagement activities of ICANN, it supports the

community, which is the mission of ICANN, and it's completely within the reason why ICANN exists.

But it's honestly directly related to the amount of funding that we receive. So, I think that the link between the funding of ICANN, and its activities is indirectly linked through the mission, rather than the compensation for direct service.

I know that you were going to like it. I know you don't like it, but…

Yes, Jim, Jameson, go ahead.

JAMESON: Yes. Thank you Xavier. Actually, that is the issue, trying to explain and explain. May I ask, at the United Nations, [inaudible] income, the funding given to the Unite Nation to exercise activities around the world, is it tied as income? Yeah. Because it's easier. Yes, I could understand revenue has to do with costs and profits, organization. But if you're looking at non-profits, you can also say, like income, what comes in, okay? [Inaudible] get that readily, and what you appropriate, what is your income, or whatever you appropriate maybe to GDD, is the funding, GDD funding for staff?

Funding for this and that. So, how is it like in the United Nations?

XAVIER CALVEZ: I actually don't know. I don't know who it's handled in the United Nations. I can imagine that the source of income, which comes from the countries at the United Nations. Maybe also, [inaudible] directly related to the expenses occurred by the United Nations in furtherance of their mission.

Now, in the non-profit environment, there is sometimes a very direct link between the funding and the expenses, when a donor makes a donation to an organization with a very specific purpose, that donor says, "I'm giving you a hundred, and you need to spend it for this purpose."

So there is, sometimes, a very direct link between the two. We at ICANN, do not have any designated funding, meaning of the sources of funding that we get, is telling us, you need to spend… "I'm giving you this money and you need to spend it for a specific purpose." But we will.

One of the contributions that we are going to receive in FY 17, from the RIRs, will be partially designated exclusively for the funding of the IANA functions. So, the RIRs have contributed 823K, thousand dollars, sorry, to ICANN for more than 10 years. And in the MOU that RIRs have signed with ICANN, as part of the transition, they have designated that a fraction of that 823K had to be used for the purpose of finding the IANA services.

So, that's the first and single, for now, contribution that ICANN will receive, that has a specific purpose.

UNKNOWN SPEAKER: So, [inaudible] something that comes in, comes into ICANN income, you know.

XAVIER CALVEZ: Sorry, I didn't catch what you were saying.

UNKNOWN SPEAKER: Yeah. I mean, as long as it comes in, it comes into ICANN, you know, it can easily be understood by everybody. It comes in, you can then appropriate…

XAVIER CALVEZ: Right.

UNKNOWN SPEAKER: Just so that the community can easily understand, because the idea of funding, yeah, my mind just goes to yes, you already have the money, and then you now fund some specific projects. But you need to have the money, you describing how the money comes income. And maybe expenditure, as in…

It's not a question of profit and loss, no. We're not talking about profit and loss, we're talking about income and expenditure. Something comes in, I will expend. And in the process, you appropriate funds to different things.

XAVIER CALVEZ: Correct. And this is why we have consistently disconnected, in quotes, the funding from the expenses, knowing that there is a relatively small relation between the two. Some of our funding sources, for example, the registrar accreditation, or the new accreditation, we have an application fee for new accreditation, and we also have costs for evaluation of those applications.

So, that's a direct link between a source of funding and a cost, but it's very limited in relation to the entire set of costs of the organization. Yes, [Rolof].

[ROLOF]: I just wanted to say, thank you for the very clear explanation, Xavier, and I apologize, I didn't intend to start a discussion on this thing, I just…

XAVIER CALVEZ: Let's move on.

BECKY NASH: Next slide, please. So, this next slide here is a recap of our trends of funding. On this slide, you can see that we have three years, or three 12 month periods of data. The first two are actual funding for the year, end being June 30th of 2015, and ending June 30th 2016. On this particular slide, then, we've also added our assumptions for the FY 17 budget.

At this time, since we're embarking on the FY 18 budget, we want to consider trends and look at assumptions that will help us then model what should we have for our funding, for FY 18. For FY 17, it's so early in the year, at this point, we do not have a revised forecast, but that's something that we will be talking about as we progress further in our budget process.

On this particular slide, we've also organized our funding streams by, or funding amounts by, transaction fees for legacy domains, and then also our new gTLD registry and registrar fees. And then registrar accreditation and application fees, and then at the bottom, we have our contributions, as Xavier had talked about, the RIR, also contributions from ccTLDs and sponsorship and other income.

So, just as a recap for FY 15 actuals, we have total ICANN operations funding of 102 million. For FY 16, we have total funding of 126 million, rounded. And our FY 17 budget, full year

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again, 12 months, is listed at 132 million. So, this gives us a good trending of our revenue. I'm going to keep saying that.

I mean funding, it's hard to change for a finance person, but I totally support using the word funding.

[SPEAKER OFF MICROPHONE]

So, I think we have a question. Chuck?

CHUCK: Thanks Becky. And I'm going to have trouble with the funding and revenue too, not that I oppose it, it's just habit. It's kind of like the meeting starting on Thursday versus Saturday for me, and most of us have been confused with that, right?

[SPEAKER OFF MICROPHONE]

Yeah, what day is today? That's a very good question I've been asking it. Okay. I'm curious, and I don't know if this is the right time to ask this or not, but certainly, it's not a very consistent trend on the ccTLD revenue. Is there a reason why it dropped by a million dollars? And I saw that in the audited financial statements as well.

And yet, it's still being projected for fiscal year 17 at the 2.1.

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BECKY NASH: Thank you for your question, Chuck. Yes. The ccTLD funding amounts are purely contributions, and the process for actually recognizing and then billing these amounts, is only once we have confirmed the contribution amount. So the decrease in FY 16 was primarily just do to the timing of the confirmation for various parties.

As of right now, since we don't have a FY 17 forecast listed on this slide, I can tell you that there were many amounts that were confirmed and then invoiced early in '17, that typically, in the past, would have been part of the process for FY 16. So, it's purely a timing mechanism.

CHUCK: Thanks Becky. Chuck again. A follow-up question. If it's a timing issue, then you'd think that the following year would be higher, unless it rolls over again and again.

XAVIER CALVEZ: You're correct. It's simply that we're showing here the budget that was approved. So this is not yet reflecting the impact of those additional contributions early in the fiscal year. You know, so that we provide a reporting of the contributions by TLD, by ccTLD, on an annual basis, and in that reporting, we will show

the contributions to the year that they pertain to, even if they may have been paid in the few weeks or months that follow.

So that it's a truer representation. Yes, [Rolof].

[ROLOF]: Xavier, is this a [inaudible] what I intended to call the 2,000 year old stamp issue? I once sent you an email, after having sent you a previous email, or it was Bart, requesting for ICANN to invoice us for 200,000 Euros, and I said, writing this email, or sending this email, feels like sending you a letter with a 2,000 year old stamp on it.

Because my experience over the years has been that we always have to remember ICANN several times, to send us the invoice. So, my question is, is this in the contributions caused by delay from the registry side? Or is it caused by some, let me say, minor dis-function in the ICANN billing part.

And I understand that there is this difficult mechanism of somehow remembering every year of sending everybody an invoice, which is… Now, I'm being serious. Maybe it sounds funny, but, which is more difficult than, if you have like a transaction fees scheme where this automatically is the case.

XAVIER CALVEZ: So, it's not a matter of remembering, it's a matter of confirming the voluntary contributions from the ccs. So, we need a positive confirmation from the contributor, or potential contributor, that they will contribute. Not only for contributor, ccs like you, like ISDIN, it's that those ccs that have been contributing all of the time, would expect simply the invoice to come in.

And the issue is that one, we need to confirm. Two, we need also to proceed with a fact chat for everyone. And I know, a fact check being required for us to ensure we vet the source of income. Having said that, it doesn't mean that we cannot, and should not, and will not improve the process of billing of these contributions, including notably, being them forward in the year, because we should do that earlier in the year.

And this is one of our projects that Becky can speak of more. But you're right. The bottom line is, we need to do a better job at billing consistently and earlier, the ccTLDs. The challenge that we see is, receiving a positive confirmation of contribution, and being able to do a fact check, which again, is just a matter of process. But we should do that earlier as well.

BECKY NASH: Mary, another question?

MARY: Thank you very much. My question is on the registrars that accreditation. Of course, the application fee, but the second, the FY 17, they're not showing, so in how the decreased by 2.5. So, I didn't see that. Okay, all right now, okay.

So, then are we saying that the pair of registrar variable fees remain static every year? FY 15 is 3.4, FY 16 3.4, FY… The budget is also 3.4. Is that the figure? It doesn't vary. Why we said variable fees?

[SPEAKER OFF MICROPHONE]

XAVIER CALVEZ: So, this is a sore point, Mary.

UNKNOWN SPEAKER: She asked the same question last time we had this meeting.

XAVIER CALVEZ: I agree. And you're turning the knife in the wound. So, this is a fee that is fixed in total at 3.4 million, and variable per registrar, as the name is saying, because the 3.4 million is divided by the number of registrars that exist on a quarterly basis.

And there is also a number of conditions that are used into the calculation, so it changes every quarter for the registrars that receive the bell, because the number of registrars changes,

honestly, by a lot, but it changes nonetheless. And therefore, it's variable for each registrar, but for ICANN, it's fixed in total. It's always 3.4 million.

UNKNOWN SPEAKER: Maybe… Well, it's a related question, but maybe not relevant. If you think it's not relevant, just say so. But do I answer correctly? If, for instance, one registrar acquires another one, that means that all the other registrars are going to pay a bit more? Because there is now one less, so you divide by one less. Or, they all pay a bit more because there has been an acquisition of one of the other?

XAVIER CALVEZ: So, it depends whether the acquire is not accredited anymore. So, it's by the number of accredited registrars. To your example, you have one [CROSSTALK]… 100 registrars, and says, I'm going to de-accredit those 100, then suddenly the population decreases in the number, amount billed by the remaining registrars, then increases by the same proportion.

UNKNOWN SPEAKER: And those 101 previous registrars, now pay the fee of only one.

XAVIER CALVEZ:	Yes. And everybody else pays a little bit more.
UNKNOWN SPEAKER:	This is a nice business case. [SPEAKER OFF MICROPHONE]
XAVIER CALVEZ:	And it's a pain in the neck, to be honest, in billing, it has no value for, well, not much value for anyone. So, we would like to evolve that model in the future.
MARY:	Excuse me, in that case, will you maybe rename that item? Because each year, I ask the same question, and I get the same answer. So [CROSSTALK]…
XAVIER CALVEZ:	…change the contract of the registrars? Because Mary is not happy with the description. So the issue, Mary, is that we don't have a choice, but it's actually accurate. It's a per registrar variable fee, and it is variable for each registrar, it's just fixed in total. Laurie.

LAURIE: Yeah, but this is where we can make things easier for the community, by putting a footnote here, or some sort of explanation. I mean, that's what we're here to do, right? Make it easier for people to read the budget. So, I would definitely, if that question has been asked every year, now is the time to make the note, add an annotation.

XAVIER CALVEZ: Just for information. In the budget document, there is an entire section on the registrar fees, in which this is explained but it's also on the back end. So, we'll make that in the…

LAURIE: Right, that's my point. My whole… This is my first year on this working group, and after… And I was invited because of some comments I had made in Helsinki about the reserves in the budget. I want to add that because this was the first time I personally dug deep enough to ask these types of questions.

And I would say, overall, my comment was completely unreadable. And I know there is a lot of information there. I'm not saying that the staff didn't put the work in, but what I am saying is when you're first exposed to it, it's nearly impossible to read.

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So, stuff that's a the back, if it makes more sense to put it in the… Not in the front, and not lump it together, but put it where it needs to be so you can keep reading down the lines and understand what you're reading. I think that would make huge progress in terms of the transparency of the funds.

XAVIER CALVEZ: Thank you very much. It's very important and good input that we need to find solutions for, which is, it's a huge amount of data. It's a complicated amount of information, and unless you are like the, Cheryl, or Chuck, or others who have spent years into this process, it's difficult to access the information. We completely recognize that. We have received that input last year as well.

This is one of our lessons learned, and we are trying to design a little bit of an executive summary of the budget that would have, as much as possible, pertinent information in an easy to grasp format, that would also be provided with a budget document. So it would be put up front in the document, while we would still have all of the same amount of detail, but at least if you have just a half hour to spend, you have a relatively short and simple document to look at it.

So, in that respect, that's the type of thing we're trying to do. Thank you. Any further questions on those dollar amounts? We are now going to… Yes, we have one over there. Please.

ALAN BARRETT: Hi. This is Alan Barrett. About the RIR contributions, it's a little strange to me that a constant figure always [inaudible] point eight million is shown in the last column as minus 3%. I'm not sure what's happened there.

XAVIER CALVEZ: That's a good point. I don't know. [CROSSTALK] …some of the amounts, because it's actually $823,000, for the past 11 years, I think.

ALAN BARRETT: Yes. That figure is specified in the MOU between the NRO and ICANN. Another question, I'm not sure whether it's accurate to call that contributions. In the past, it has been, no question about that. But in the future, 650,000 of that will be payment for the IANA service, so perhaps it's no longer accurate to refer to it all as contributions.

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XAVIER CALVEZ: Thank you for that. We will verify technically speaking, as per US accounting principles, if that stays or not a contribution, but you could have normal contributions that are designated for a specific purpose. To your point, that's what I said earlier, a fraction, which is corresponding to $650,00 of that $823,000 contribution, is going to be designated just for that purpose.

So we will reverify the [inaudible]. Thank you for that point. We have a question or comment online. Can you read it please Jessica?

JESSICA: So, the question is, or comment, is from Philip [Du Bois]. "I confirm [Rolof's] statement, by the way. We did not get an invitation to pay from ICANN for dot B in calendar year 2016. We pay each year, but only in response to an invoice, of course."

XAVIER CALVEZ: And Philip, you may be in the same situation as [Rolof] and SIDNR. We have sent an email to all ccTLDs on the email address that we had, early June, for requesting to indicate if a contribution would be sent by the cc. In the example of SIDN, we had a generic email address, that it was not getting to the person within the organization that needed to receive that information.

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So, we have updated that, but it may have been the same issue for Philip. Nonetheless, what we discussed earlier, and what I indicated on the improvements that we need to make on both the process and the timing of the billing to the ccTLDs remain. We need to improve that. There is no dodging that for sure.

Okay? Yes, [Rolof].

[ROLOF]: Xavier, I can't remember the sequence of the items on the agenda. Are we going to discuss your, let's say, your principles on which you have come to the FY 2017 funding? Or do you want questions on that here?

XAVIER CALVEZ: So, the FY 17 budget is the budget that has been approved already, right? So this is for FY 17, our current fiscal year. And that budget has been discussed and under public comment in March and April, then commented upon and approved. But you're most welcome to ask any question you would like on this one now.

[ROLOF]: So, we have… Well, I was wondering if you, when you came up to the budget, if took the trends in renewals of new gTLD

domains into consideration? Where you came up to this growth in, I wanted to say revenues, but I mean funding.

XAVIER CALVEZ: So, it's a little bit different, our assumptions are a little bit different for legacy versus new gTLDs. And we have in the published budget, the set of assumptions that are underlying to the document. But legacy, it's basically a trending of growth year on year that we're using. We're using a percentage, which from memory, was 2% last year.

[ROLOF]:   I was referring specifically to new gTLDs.

XAVIER CALVEZ: Okay. And new gTLDs is a little bit more complicated. We have used in… Let me stop there for a second. On next slide, we have actually the drivers, and it will be easier to explain then. Any further question on this slide?

No. Let's move on… Sorry, Mary.

MARY: Yeah. It seems to me that we are not comparing like to like. For instance, if we were to compare budget of FY 17, it makes it more meaning to state that this is what happen, or we're saying

actually, if we're analyzing actual of FY 16 against the budget. I don't know whether it's just for us to just to know what has happened, and I know you just started FY17.

So you get what I mean?

XAVIER CALVEZ: I think so, and I think that when we get to the next slide, it will be more clear. If you don't mind, let's go over the next slide.

So, for the same periods of time, this is giving you the volumes of transactions and the number of contracted parties, which are the drivers to our funding. I'll let you take a little bit of time to look at this. We have a question from Alan, and then I would like that [Syrus], and Krista, and Jennifer can start commenting on those numbers, because these are the volumes that reflect the market of the DNS market trends, that we are either seeing or using for planning purposes. Alan.

ALAN BARRETT: Thanks. Let me restate what I think Mary was asking. I hope I understood.   I think Mary is asking for you to add another column to the spreadsheets with FY 16 budget, so that we compare the FY 16 actual with the FY 16 budget in two separate columns.

XAVIER CALVEZ: Is that what you were asking Mary?

MARY: Exactly, that's exactly what I was asking. That it would make more meaning interpreting the figures, if we are really analyzing and comparing. So, it would be difficult for me to compare actual against budget.

XAVIER CALVEZ: Just one second. I just want to authorize Becky to beat me up on the head, because I asked her to remove the budget from those slides yesterday.

BECKY NASH: Yes, we did have a column for FY 16 budget on these two detailed slides, but essentially because what we're looking at is trend, at this point, in order to go forward with assumptions, or discussing assumptions of laying the groundwork for the FY 18 upcoming budget process, but I would be happy to have that slide return to its original state.

Thank you.

XAVIER CALVEZ:	Chuck, please.

CHUCK: Thanks. And I think we have to be careful. That slide isn't, doesn't include everything. And I'm not sure we want it to. I'm not opposed to adding that, the actuals to it, but I think everybody needs to understand that there are other bits of information that are provided that give that comparison.

Do we need that on that particular slide? I don't have hard feelings about it, but let's keep in mind that these slides we're looking at, aren't intended to cover everything on one slide, and there is a place where actuals versus budget and so forth, is provided for each of the fiscal years.

So, I just throw that out for thought.

XAVIER CALVEZ: Thank you Chuck.

MARY: Excuse me, Chuck. What is the [inaudible] of presenting these figures? If it is going to form a base for preparing for FY 18, then I think the total information should be presented, but if you think that we are fine with that, maybe because as some of us look at

figures when it comes to financing, but for a technical person, fine.

For you techies, fine, but if you are preparing a budget, you have some assumption, for you to make an assumption, you have to have the complete information to be able to make some assumption. But I'm happy if you're happy with it.

XAVIER CALVEZ: Listen, it's not complicated to provide you with the information, so we'll do that. I just want to point out that the FY 16 budget was established a year and a half ago. So it's quite obsolete if you think about it. I would argue that the FY 17 budget is also starting to become obsolete because it was really finalized in January 2016, which is already nine months ago.

[Sirus], or Krista, or Jennifer, do you want to comment on those figures? We have a number of questions for you on those slides relative to assumptions, so we may want to get into that now. Thank you Krista.

KRISTA: This is Krista [inaudible] from the ICANN organization once again, here to talk to you about funding. So, I think one of the numbers people tend to care quite about here, is the, in the top, under the transactions, the percentage of billable new gTLDs

versus total new gTLDs. And if you look at the actuals from FY 15 versus FY 16 versus FY 17, I think the question we discuss among ourselves, when we're pulling these numbers together, is you see the FY 15 actual rate was 82%, FY 17 was 77, and, you know, why would we project, be projecting FY 17 at 75% if that's a little bit lower?

And I think you all are probably used to hearing this from us as well, we tend to want to forecast on the more conservative side, especially with new gTLDs because of the fact that we really don't have a lot of data. They are, you know, slowly ramping up. There is another factor, might be interesting going into FY 17, and I can talk about this a little bit down below on the number of contracted parties that are registries, but we have a number of brands that became contracted parties in the first month of, in or around the first month of FY 17, or late in FY 16, and not really knowing…

They all are mostly brand registries, which is a bit of a different business model. And so, there is also… It's a big group of folks too, so there is just a lot of new data. It's still coming into us, and again, we want to sort of err on the side of being conservative.

CHUCK: Chuck again. And Krista, you might want to come, explain for those that maybe don't remember, but a couple of years ago, the budget… There was an impact on the budget, and it had to be done, redone mid-year, which really was very awkward, because reduced, significant reduction in revenue. So, I'm just saying that the conservative approach, there is a basis for it.

That's probably generally a good principle, but there was a specific instance a couple of years ago that really created some problems, and to the extent that we can minimize those, I think, is helpful.

XAVIER CALVEZ: Let me explain quickly what Chuck is referring to. We finalized the budget in the month of February, therefore four, five months before the year starts, effectively. What happened to the three years ago, what Chuck is pointing out to is that, we had expected a number of TLDs in the root, that turned out to effectively be lower for the beginning of the fiscal year.

So, when we were in February, we said in June, we think we're going to have this many TLDs in the root. When we arrived in June, the number of TLDs in the root was lower, which obviously drove our entire revenue relative to those fixed fees to be lower, and actually throughout the year because there was not really a catch-up through that year. So that corrected the revenue, and

of course, we saw that of course coming through very early in the year.

So in the month of July, we initiated, which is the first month of the fiscal year, we initiated a correction of the budget, which then led to an approval of the revised budget at the end of August, and that's the point that Chuck was making. And generally speaking, we should be conservative on our revenue anyway, which we, in our funding, which we were, but certainly that was a good reminder that we should be.

Yes.

JENNIFER GORE: Hi, thank you. Jennifer Gore, ICANN staff. As it pertains to the registrars, similar to what Krista was saying, we tend to err on the side of caution, in a conservative approach. As the registrars are sometimes coming in with the applications, but for pretty much, we see, you know, on average 15 new registrars on a quarterly basis.

So, we keep that number pretty steady.

[SIRUS]:   Thank you. This is [Sirus]. Perhaps it might be useful to also talk about some of the general market trends that we observed in FY

16. If you look at the top section in terms of the number of transactions, right about this time last year, we started seeing a fairly significant spike in the number of registered domain names that we called transactions in our world, in ICANN.

A lot of it was driven sort of consistently across the board, because as you see, we divide the world of TLDs in what we call legacy, which I don't like as a term either, and new gTLDs. And we track them separately. The new gTLD, of course, is a new phenomena, so it's beginning from a fairly small base, and still fairly difficult to predict and project because there is a lack of history, there is a dynamic marketplace going on.

What we did observe, like I said, around September, October of last year was a spike in the number of transactions. Historically, our legacy TLDs have grown at somewhat of an average 2% a year, in terms of transactions. Now, we started seeing a spike in new gTLDs and legacy TLDs.

The legacy TLDs, we ended up experiencing a growth rate of almost four and a half 5%, which was significant. So these are coms, nets, org, all of that. And we also saw a very significant spike in number of transactions that you see, I think, in number three where it says new gTLDs from 7.3 to all of the sudden, 23.4.

And of course, we started looking into the sort of underlining reasons for this increase, to understand whether this is organic,

that actually the market is coming in and registrants are coming in, signing up for new gTLDs. And you would think if that happened, it would have a negative adverse impact on legacy TLDs, which it wasn't having.

It turns out, at least based on what we understand today, that some of this is driven by speculation. There is speculative transactions taking place, a lot of it actually done in China. And some of it is organic. I don't know what the division is between the two. And as you can see, in FY17, we forecast that this will go back to a more sort of a seasonal historical growth rate, that both for legacy and new gTLDs.

And in the legacy, we sort of track the public companies that make statements about their marketplace, like VeriSign and Go Daddy and such. In fact, Verisign had said, I think, two quarters ago, publicly stated, that they expected this bump in transactions to level off to the more historical levels, and they actually confirmed that again in the recent analysist briefing.

So, you see that reflected in FY 17 budget that we are actually expecting to sort of go back to what's been historically the growth rate for legacy TLDs, and a more sort of market driven new gTLD transactions. Now, what's important in tracking the new gTLD transactions, is actually the number for renewals. Because if there is speculation going on, then a lot of

speculators end up buying this stuff, and they say, whoops, you know, it didn't do what I wanted to do, they don't renew it. We don't see that happening yet.

Excuse me. So, there was this attempt, again, right around this time, and later on, by some of the new gTLD operators in either significantly subsidizing, or perhaps even giving away some domain names in millions, really, it was measured. And we expected none of these to renew, but oddly enough, what we're seeing is that they're being renewed actually at a fairly significant rate, close to 75, 80%.

So that part of it remains to be seen in terms of whether that's a sustainable thing, and we don't know what's causing that actually, if they were giving that way. Another, I think, perhaps noteworthy thing here is, in terms of our number of accredited registrars. This is the last row that you see on this slide.

This is a significant increase, and again, for your information, historically, the number of additional accreditations for registrars for us has been in the order of 15, one, five, per quarter. So about 60 a year we end up adding, on the average. But as you can see, there was an increase of about 600 in FY 16.

So, we've had some, what we call, portfolio players that have come in and applied for accreditations in the orders of, you know, dozens and maybe 100 or 200. You see that reflected in FY

16. For FY 17, we have forecasted for this number to go back again to its sort of seasonal level. I don't know if this is actually going to materialize or not, that remains to be seen.

At the moment, we haven't seen much of a change, but these are the drivers, sort of, that you see going from FY 15 to 16, that informed us in the projections that we made for FY 17. But thank you.

XAVIER CALVEZ: Thank you [Sirus]. Tijani?

TIJANI BEN JEMAA: Thank you. My question is exactly what you said at the end. How do you know that…? What are the objective elements that led you to say that you will have almost 500 registers less than the previous year? Since we have actual figures for FY 16.

[SIRUS]:   Thank you Tijani. This is [Sirus] again. This is a very good question…

XAVIER CALVEZ: …switch off your mic please, thank you.

[SIRUS]: So, from what we understand, there is a segment of the registrar business that is involved in what's called drop catching. And that's the reason some of these players and a very small handful of them, that have come in and actually apply for multiple accreditations. It aides into how the ecosystem actually works, for them to be able to actually, well for lack of a better term, catch some, you know, more valuable domains that are coming up for renewal, or something like that.

And when you do sort of the back of the envelope calculation, at least from our semi-conservative perspective, there is not enough domains out there to actually accommodate this many feeding hands to be out there. So, we think, I don't know if this is right, we think that this is going to go back to a normal level, that there may be some de-accreditation taking place.

But you're absolutely right. We are very early into the fiscal year 17. I don't know where we're going to end up. It still remains to be seen. Thank you.

XAVIER CALVEZ: Follow-up comment? [CROSSTALK] Sebastien.

TIJANI BEN JEMAA: A follow-up comment. Since we are midway in the FY 17, do we have a confirmation of your project? Of your projected figures?

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[SIRUS]: No. We don't. Let me rephrase. We don't have yet a forecast for FY 17, which we're working on. But we have not seen de-accreditation. We have not seen any reduction starting to happen. It doesn't mean that it won't, but we don't have any indications that that's the case for the minute. Sebastien.

SEBASTIEN BACHOLLET: To follow the question of Tijani, that means if we have done the budget now, some of those figures will be different, because you will have the result of 2016?

[SIRUS]: So, have the result of 2016. 2016 is done. And that's the middle column.

SEBASTIEN BACHOLLET: Yeah, that's when we build, when you build the budget for 2017, you didn't have the end of the year in 2016. My question is, if you knew what we know now, the budget will be different.

[SIRUS]: Absolutely. And the forecast will therefore be different for FY 17 as well, because now we have more information on the…

SEBASTIEN BACHOLLET: As I say today, in one forum, I don't know where, but I have the impression that this organization is missing memory. Just to take one example, and Chuck can contradict me if I'm wrong. In 2000, ICANN decide to launch new gTLDs. I guess at that time, dot com was around 20 million domain names.

And the reason was because there is not enough space in dot com to accommodate a lot more domain names. For sure, two and three [inaudible] was already gone, but for the rest, we see that it was wrong. When [inaudible] of the first round of TLD in 2000 was done, many people were saying, we may see that dot com will decrease. In fact, the dot com increased.

When we launch a second run of TLD in 2004, we were thinking that maybe we would start to see some decrease in dot com, and it was a contrary. When we add the boom of the ccTLD, or the start of the boom of the ccTLD, guys, that's competition, and dot com was decreased. We are still to see that.

Then from an end user perspective, I can tell you that a lot of people I talk with say, hey, dot com is still the place to refuse, if you have any trouble in any TLD, we need to have one in the new, but we will go to that also. And I don't think that dot com ends up so-called legacy TLD, will be decreasing yet soon.

That means that, where we under the forecast, must be not just our thinking about yes, finally, dot com will, it will happen one day, unfortunately or maybe fortunately, I don't know, but we are not yet at this point. And then for what you are trying to do, it's important to have that in memory, what's happened.

I know we are not at the same level of magnitude that 2000 and 2004, and that gives us a lot of [inaudible]. But still, I think what's happened in those days, could be usefully revisit and take into account. Thank you.

XAVIER CALVEZ: [Rolof], and then we will respond to that.

[ROLOF]: Yeah, my reaction would be to Sebastien, and it will be kind of a word of caution. I think you have to be careful with this kind of analysis, if you don't base it on actual data. And I think that's why, for instance, Jay Daly made this remark during the public forum, that ICANN should really go into data analysis, to make sure that it can found its decisions, and its policies, and also its developments, I think, on data for part.

Because, for instance, I know that in the dot com domain, a lot of the growth of the last quarters, is based on speculative registrations, domains that are not actively being used. And it's

just being sold from one party to the other. So, although there is growth, there is this question of, how long will those domains stay registered?

If you look at the string, if you look at the string length in the dot com, there is diminishing, which is weird because you would expect such an old domain, also to have many meaningful strings of a few characters left, and it's right. There is a lot of registration to us, at least, [inaudible] four strings.

If you look at the Dutch market, there is another example, dot com, market share has been declining due to registrations on the new gTLDs. So, dot NL is not declining, there is competition from new TLDs to legacy TLDs, in our local market. That's just an example. You can base any decisions on this, but my plea is that before we think that we know trends and we see trends, we look at the underlying trends, sometimes give different insights than we think the first one.

XAVIER CALVEZ: Thank you. [Sirus].

[SIRUS]:   Thank you thank you Xavier, [Rolof], and Sebastien. I think there is a misunderstanding here. We're not predicting legacy TLDs to be decreasing. The statement here was about the rate of

growth. The rate of growth is going to slow down, because there was this speculative bubble bump, if you'd like to call it, for about six to nine months that took place.

Now, the market is going back to its historical growth rate, so no, we don't have amnesia, we don't forget. We actually have a very detailed model behind the numbers that you see here. We just don't sit there on a whiteboard and write a wish list, and come up with these numbers. We spent quite a bit of time, and quite a bit of analysis, into building a revenue model that leads to what you see here.

So, what I was trying to say is that the legacy TLDs, and this is being substantiated from public companies like VeriSign, Go Daddy, and others. They're going back to their historical growth rates of about one and a half to 2% per year, in terms of new registration.

So, it's still growing, and in fact it's fitting into the model that's been sort of observing it for the past few years. And decidedly, actually, indicating that we observed in the past 12 months or so, since October, until about end of summer, was a bump. It's not going to be sustained. In spite of the fact that there is growth actually in the new gTLD space, we don't see it impacting the legacy TLDs.

And in fact, this is what you see in the data here. You can see FY 17 budget in terms of transactions for legacy, it's showing increase from FY 15, but almost level with FY 16. And if you sort of look back and dissect what I told you about the bump in it, this, I think, would all add up. Thanks.

XAVIER CALVEZ: Thank you [Sirus]. So this leads us in one of the questions that we had for the group is, we think that what we're calling legacy TLDs here, we should assume a nominal or minimal amount of growth year on year, for the, this specific line, the first line, the 161.7 million for the FY 17 budget. The minimal amount of growth year on year, for the FY 18 budget, more or less consistent with the 2% or so that [Sirus] was mentioning earlier, reflecting this nominal growth that we had seen in the past before this bump that we had seen in the past few months.

And that would also represent a relatively conservative assumptions. Any reactions to that? I see Tijani.

TIJANI BEN JEMAA: I more or less agree with your behavior. If it was in the other direction, I would oppose. So, you are toward the conservation to be more conservative, it is better, even if I think it is too much. Thank you.

XAVIER CALVEZ: When you say too much, you mean too high? Too much growth?

TIJANI BEN JEMAA: No, I meant you are…

XAVIER CALVEZ: Too conservative.

TIJANI BEN JEMAA: Too conservative.

XAVIER CALVEZ: Well, I prefer to be wrong on the right side of the difference. Yes…

UNKNOWN SPEAKER: I just wanted to highlight that, in fact, going back to 2% growth is still a humongous number. The base is huge for legacy. You can see it obviously in the numbers, from 160 million, 170 million transactions, 2% is still 8 million transactions. It's very substantial.

XAVIER CALVEZ: Thank you. Just wanted to remind people, Krista talked a little bit earlier at the rate of billable TLDs. The 75% that you see there on FY 17, this is because for those of you who don't know, there is a threshold of number of transactions, under which there is no fee, and over which then fees become due on transactions. That threshold is 50,000 transactions on either one or up to four quarters, I won't go into details.

But that simply means that in our budget here for FY 17, we have been assuming that 25% of the transactions would be below the threshold of billing, and therefore will not be billed. That's what this ratio is about, and this ration helps us, monitoring it helps us be able to forecast.

We are suggesting, for FY 18, unless we get different information over the next few weeks, we are assuming, we are proposing that we are going to keep that 75% as an assumption for FY 18, and you can see that the actuals are slightly above that.

So that's also something that we think is relatively conservative, close to what the reality is, but on the conservative side. And that is also what we are suggesting an approach to take. Chuck.

CHUCK: Thanks, Xavier. I know some of you are relatively new to this process, but one of the things that impressed me, and I think it

was last year, it could have been the year before, but staff provided even more detailed explanation of their estimating for forecasts, and I was quite impressed with the historical accuracy of that.

That they went back, they looked, they checked, their process, at least from what I've seen, is extremely thorough and has been quite successful at doing that. I share that just to let, especially the new people know, that this committee, over the last couple of years, has looked at that, and we've even made some suggestions.

Remember the suggestions that were made with regard to renewal rates, and some adjustments were made in that. But it's quite a thorough process, not that we shouldn't still question it, and still watch it closely. But it might be helpful, not in this meeting, but maybe just if some of them want it, to provide some of that information, because I know I found it very helpful.

XAVIER CALVEZ: So Chuck, we are expecting for the next meeting in Copenhagen, to have this same amount of information available, simply because right now we're ahead of the detailed modeling, but in Copenhagen we will have that information.

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Last question, or last proposal of an assumption, is on the number of registrars. You can see that there is the same number of assumptions here, or a discriminating type of assumption, which is that we had made in the budget that the number of registrars would decrease, as [Syrus] and Jennifer explained earlier.

And what we are proposing is that our forecast of where we think the number of registrars is going to be at the end of FY 17, at the end of June 17, is what we use as an assumption for FY 18. So that basically, we are not honestly assuming an increase, or a decrease, of the number of registrars, that we would forecast to be at the end of June.

Slow growth, no reduction, other than the 60 per year, or the 15 per quarter, that [Syrus] was indicating earlier, is the run rate of growth that we have seen. Any comments on that suggested assumptions? Is it reasonable in your views? [Rolof].

[ROLOF]: It sounds very reasonable to me, yeah. So you go back to the historic trend. Yeah.

XAVIER CALVEZ: Okay. [Sirus], please.

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[SIRUS]: Thank you. One last comment. This is [Sirus]. Thank you Chuck for obviously acknowledging that there is quite a bit of work that has gone into building a very detailed model, and then as of about two and a half, three years ago, a part of my team, obviously these two lovely ladies are on, and some other people, we actually track market trends.

We've started tracking, you know, public information. We have people now in the other parts of the world that inform us of developments in China and such, but I wanted to say to hopefully help people with the sort of, perhaps accuracy of the model that we have for projected revenues and tracking them, is the last time we actually updated our FY 16 forecast, I believe was in January February time this year, through June which is the end of our fiscal year, and that update to the forecast came in within 2% of where we ended up actually.

So that also speaks to the level of accuracy that the model had. Now obviously, at the beginning of the fiscal project, which was 12 months before that, we didn't have the information, so it was different. But half way through the fiscal year, when we updated it, we called it within 2%, is what it is. Thank you.

XAVIER CALVEZ: Our performance and accuracy is improving with the model, but it's also improving with your input that, notably, I remember Chuck and Paul providing some useful insights on the renewal rates that they were seeing in their registries that we've taken into the account for the model. So that's useful.

We've passed the end of this section, in terms of time. Just want to check if there is one last question on the funding, but we have directions together with this group on assumptions that we're going to retain to do the projections. That was very useful for my perspective. Any last comment on this?

No. Thank you [Sirius], Jennifer, and Krista to have spent the time with us, very useful. You're dismissed. [CROSSTALK]

So, we're going to break for just five minutes here to have refreshments, you can pick it up. We're going to start back over the presentation, but you can, and please help yourselves with food and wine, or beers, or non-alcoholic drinks, for those who prefer.

[ROLOF]:   So Xavier, I hope you will dismiss me too, because I want to go to the cocktail [CROSSTALK]…

XAVIER CALVEZ: You're dismissed [Rolof], as well as Cheryl who had…

[ROLOF]:   I probably formulated that wrong. I'm not going to the cocktail, I'm going to listen to the speeches.

XAVIER CLAVEZ: Yeah. I will hold it against you guys, but nonetheless, you are dismissed. As long as you promise to come back to the next session of this working group, then I'll forgive you.

UNKNOWN SPEAKER: [Rolof], he told me I couldn't do that. So, you're treated more favorably.

UNKNOWN SPEAKER: Thank you, it was a good session, Xavier.

XAVIER CALVEZ: Thank you. Yeah.

                    I appreciate that, thank you.

                    [SPEAKER OFF MICROPHONE]

                    Okay.

JESSICA: This is one minute warning.

XAVIER CALVEZ: Jessica has summoned us, so we need to obey.

                           Becky, I would suggest that we probably shorten this session, because we've actually talked a little about what we, already about what is in this section. Do you want to do it while you eat?

BECKY NASH: Sure.

XAVIER CALVEZ: Next slide please. So, during this section, we wanted to present you guys a little bit, an overview of our FY 16 results. We've talked about the funding part, but we haven't talked about the rest. We'll try to go quickly to buy back a little time on this session.

                           But, of course, your comment and input would be useful. Quick reminder, as part of our financial accountability and transparency, we have a number, and we have not listed everything here, but just a few things. We have every quarter at the end of every calendar quarter, we have a quarterly stakeholder call.

There is a lot of information. It's not just financials. There is a financial section at the end of it, but there is, it's a very good comprehensive report on all of the activities of ICANN, that are being performed in the three months proceeding period. Engagement, contractual compliance, GDD, everything is covered, as well as our financial statements.

I present ever quarter about 10 slides at the end of that call. We'll see one or two of those slides next. We also publish, on our website, within 45 days after the end of each quarter, our actual management report. Its financial statements, with comments, on variances versus budget, at a fairly detailed level.

It's about 12, 15 pages. And it's basically a balance sheet, [inaudible] a little statement, cash flow, and additional information, every quarter, on our website. And we just published, we're advertising that. We've just published our audited financial statements that have just been issued on the 25th of October, published on our website. That's an obligation for us to do an audit. But we, obviously, voluntarily published this, these audited financial statements on our website, every year.

And that's as per our bylaws. Any questions on that? No? Let's move on. Next slide please.

So, this is one of the slides that we present during the quarterly stakeholder call. This is FY 16 at a high level. We already talked about funding, which is the first line on the left, and this is where we're comparing [inaudible] budget with actuals. And you can see that we, our funding at the end of 16 was higher than budget by 12 million.

That our baseline expenses, whether operating or capital, were lower than budget by 14 million, this is the cumulative view, where we spent basically, 14 million less than what we were planning to spend. I'll comment quickly on those finances.

Third line, we had our multi-year projects and initiatives for FY 16, included notably, mainly, the transition. And you can see 24 million of actual spend. 19 of that was the transition. Compared to a budgeted amount of spend of 13 million, seven of that was for the transition. So we effectively spent 12 million more than budget on the transition.

And the reason is mainly because we had, we have about 11 to 12 million of legal fees during FY 16 on the transition, and those fees were not anticipated. At the time we finalized the FY 16 budget, somewhere in April 2015. The legal support started in March 2015. At the time that it started, we had no clue where it was going to go, and it went to nearly 12 million in FY 16.

So, that's the overspend on that line item. Net, net, you can see that the actual [column?] between funding coming in, expenses coming out, netted at a small access of 2 million, versus the budgeted deficit, the deficit that we had planned to see, driven the initiatives for 13 million. So that's a favorable variance, versus budget of 15 million, but it's simply a small access of 2 million for the fiscal year.

Chuck.

CHUCK: So, am I correct in concluding then, that not as much had to be taken out of the reserve fund, as might have been if some of these other things hadn't happened?

XAVIER CALVEZ: Ultimately, you're right. So, what is going to happen is that we have a Board decision that said that the transition expenses would be funded from the reserve fund. Having said that, because of the excess as a result that was generated, it is likely that we will also put money back into the reserve fund, so the net effect of that will be what you just said. You're right.

And honestly, it is a very reassuring thing, especially when you're the CFO of ICANN, that we don't have to deplete as much as our reserve, as we were planning to, because by lack of currently

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have a plan for replenishment, the fact that we have to deplete less our reserves is a good thing, from my perspective.

We'll look further at our positions on the next slides. Next. Sorry, yes, Laurie.

LAURIE: Laurie for the record. So my question about the replenishment is, is the excess revenue due to the option? Is it coming out of the auction bucket? Or is it coming from somewhere else?

XAVIER CALVEZ: So the access of revenue here is coming from what we saw a bit earlier, the registrars and registries and transaction fees. So, this is exclusively, thank you for raising that question, because I forgot to say that this is just operations. There is no new gTLD program here, and there is no auction proceeds here. But we will see that a little bit later in the slides.

So, next slide please. So, same information, but for the first quarter of the fiscal year, the one that started in early July, finished at the end of September, so this is the most recent information we have, basically. You can see that funding was more or less on budget, slightly above.

Base line expenses are below budget, by 5 million, largely driven by lower personal costs. We have less people then we were planning to, by approximately 20 full-time equivalents, out of a headcount of 350ish, 58 I think. And also, some projects have been happening a bit slower than planned.

For example, the IDN program, we were planning for this program to incur more expenses, or faster, and it has been delayed. The transition is slightly higher than we had budgeted. It's a little bit of timing. We had budgeted some expenses to happen straight line across the entire [inaudible], but they have happened logically, actually, earlier this year between, in the first three months of the year, where most of the work of implementation has occurred.

So, we're not expecting that this is going to be a problem by year end. Chuck.

CHUCK: Thanks, Xavier. Is that an error on the percent variance for funding? Again, since there is zero variance.

XAVIER CALVEZ: No, it's simply because we are rounding the numbers, but effectively there is a small variance. It's…

CHUCK: Yeah, I got it.

XAVIER CALVEZ: Just rounding.

MARY: Excuse me.

XAVIER CALVEZ: Yes, Mary.

MARY: Yes, please. Is it estimated actual that you are showing here?

XAVIER CALVEZ: Thank you for asking that question. So…

MARY: Yeah, because there is no difference between estimate and budget.

XAVIER CALVEZ: No, no, I agree. So, no, the estimate is not the budget, or we didn't use the budget to create the estimate. The only reason

why we have estimate here, is because at the time we had the quarterly stakeholder call, it was very early in the month of October. And we had not yet finalized our monthly close of September, and therefore we had to produce estimates.

But I can tell you that the funding was effectively rounding at 32 million, when we got the actuals. It's simply a timing issue. We produce… We had the quarterly stakeholder call on the 18th of October, and we were just finalizing our numbers for September at that time. The actuals. So, while we were closing September, we also produced estimates for the purpose of the quarterly stakeholder call.

But now, of course, we have the actuals, and that's what we will publish with the management report. Next slide please. So this is the funds under our management. This is either cash or investments, and this is where the reserved fund appears, that Laurie was commenting earlier.

So let me explain quickly this slide. On the left, you have the funds that are the permanent funds of the ICANN organization. On the right, you have the funds that have been driven by the new gTLD program. In orange, on the right, you have the auction proceeds. You know exactly what that is, in the blue bucket on the right, you have the unspent portion of the

application fees from the new gTLD program, from the applicants.

So, the auction proceeds, you can see, have increased from 102 million at the end of June, collected so that's all the auctions that have occurred over the past year, year and a half, collected and segregated into one investment account. We don't touch it, we don't do anything with it, we're waiting for the community process to come up with the process of dispersant and then those auction proceeds will be used.

You can see that it increased drastically between June and September, we all know why. The dot web auction proceeds were collected during that period. New gTLD funds, this is again, the application fees that are being used for the purpose of evaluating and processing the applications received.

It decreased by approximately 9 million during the quarter. This is quite typical. We spend about 30 to 40 million per year, at least this past year or so, on the new gTLD program evaluation. Operating funds of ICANN, in dark blue, the operating fund, this is cash on hand to pay invoices. This is where our funding comes in. This is the daily cash. Okay?

The reserve fund is a reserve for rainy days, for incidents, for accidents. Normally, we should not use this reserve unless there is an event, an adverse event. You can see that this reserve fund

amount is decreasing or has decreased. It is because we paid back into the operating fund, the transition expenses that have occurred, or a fraction of the transition, and expenses that have occurred, as a reminder this is what I was explaining earlier.

The Board had approved that we expand the transition cost from the reserve fund, because our expected funding was not going to be covering those expenses. As you have seen in the previous slide, it turned out that we had more funding, we had less expenses, and therefore, we were able to absorb those costs.

So, but the reserve fund is at a level that shows a decrease from its peak of 86 or 87 million. We are now 23 million below that. 64 million, also represents approximately six months of operating expenses, our investment policy suggests that we have 12 months of operating expenses.

So this reserve fund is about halfway where it should be, as per this target. Now, I want to point out, it has never yet reached the 12 months, but this is what we need to work towards. So, there is a replenishment question that we are looking into, whether the Board finance committee, and the entire Board, but just to set in your mind that this number should ideally be twice as much as what it is.

The 64 million here, because 12 months of operating expenses, where our budget is about 132 million, that's what that number of reserve funds should be, to be safe, in quotes. Any questions, comments? From anyone. Yes, Wolf Ludwig.

WOLF LUDWIG: Thanks. Just a question, Wolf Ludwig speaking. This regards to the auction proceeds, we know it's going, or how it's going to be handled, through this working group right now. The question is, with regards to a new gTLD funds, how is that going to be developed over the, well, on the long run?

XAVIER CALVEZ: Thank you. Two drivers to what those funds will be used for. One, the program is not completely done. There are still activities happening on the evaluation of applications, and notably, on the last ones, we have not yet contract with everyone, that we are closed, that we have not yet delegated everyone, that we're close. But they're still expense as only a program.

That's about actually 40 million out of that 133 million. And then, there is a remaining amount of funds, which have been designed at the time of the new gTLD program design, for the purpose of covering for risks. Risks being notably, potential

litigation, or IRPs. You may know that we have currently six to seven IRPs ongoing. We have litigation ongoing on dot web.

So, those remaining funds are expected to help cover for the costs of defense, or the costs of processing those IRPs, or future procedures that could be happening on the program. Just as a matter of reference, sorry there is a question there and I will come to you in a second.

Just as a matter of reference, the last TLD that was launched prior to this new, the new gTLD program, so in 2004, the last TLD that was launched previously, there was an ongoing litigation that lasted 11 years. So, it is very unpredictable for us to know how much risk will happen, and how long we will need to keep these reserves to cover for those costs.

That's a big question mark on the remaining funds of the new gTLD program. Does that help Wolf Ludwig? Yeah, thank you. Yes, you have a question.

UNKNOWN SPEAKER: My question… Looking at the results that's two dot 71, and how to draw to 64 like you explained, to fund the IANA, the new, you know, the new PTI process. Has the cost of running this function, which now perhaps with ICANN, been determined on an annual basis?

I believe it's this high because of all of the processes that have to be put in place. I presume that's [inaudible] might not turn out to be this high, but they're, definitely there is going to be some cost to it. How is the cost for that structured? Is it going to be coming out of the operational funds eventually?

I'm talking about the year by year running of the PTI now.

XAVIER CALVEZ: Okay. So, I'll give a shot at that answer, and if I'm not clear, please let me know, and then Elise will be able to further comment on the PTI. So, the annual operational cost of PTI, or the IANA function, is about nine and a half to 10 million. This is the budget for FY 18, that's currently under public comment.

So, you can go on our website and look at that draft budget that's offered for public comment, it's about nine and a half to 10 million. This is the ongoing cost of operating the IANA functions. And PTI is separately entity, and ICANN will fund in the entirety of those costs. This is separate from the project of the transition basically, and the implementation of the transition, which is what we talked a little bit earlier about, of the transition costs. Okay? Thank you. Any further questions on this slide?

Laurie, you're okay with reserved funds? Okay.

MARY: Mary here.

XAVIER CALVEZ: Mary.

MARY: I'm sorry, I need to get the philosophy behind this presentation for the reserve operating fund and reserve fund. If the other slide, we had 2 million excess, which I think would have gone to reserve fund, and but we are seeing operational fund go up, while the reserve fund is going down.

                             So, is a little bit not too clear for me, if you can help me understand. It's one compensating the other?

XAVIER CALVEZ: Okay. So, the excess that we have seen earlier, is the difference between revenue and expenses, or funding and expenses. Whatever excess we have, actually goes into the operating fund first, because this is our bank account, this is our daily cash. Now, the increase that you see here, is not just the result of the annual excess.

                             There is also timing differences that occur. So, to do it very quick. When you look at the end of June versus the end of

September, there is a three month period there for the first quarter. During the first quarter of that fiscal year, we collected the billing of the previous quarter.

And the fourth quarter of the fiscal year, happens to be at ICANN, the highest in revenue, has always been. At the same time, our expenses during the first quarter of the fiscal year, have always been the lowest out of the quarters of the fiscal year. So, in Q1, we spend less than in Q2, then in Q3, then in Q4.

One reason is, we don't have an ICANN meeting. Each of the other three quarters, have an ICANN meeting, the first quarter doesn't. So that means that we have a large inflow in Q1, and a relatively small, in quotes, outflow. That means that our bank balance increases. That's what you see here.

Helpful? Thank you. If there are no further questions, next slide please.

Becky.

BECKY NASH: Thank you, Xavier. So this next section, we're going to cover the FY 18 operating plan and budget process. And this first slide is an overview of the planning process, where we can see on the right hand slide of the slide, we have a vision and statement of ICANN, which then feeds into the strategic plan.

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And ICANN's objectives are described in its five year strategic plan, which covers July 2015 through June 2020. We're currently in year three of that five year strategic plan, when we're planning for FY 18. So, after the strategic plan, each year then we have, then we have a five year operating plan, where work is identified and described, and reviewed and updated each year.

And the next stage, following down across the diagram, we have our annual operating plan and budget process. That's what we're here talking about today, is the FY 18 annual operating plan and budget process, which is an update to the five year operating plan, and an update to the five year strategic plan, if deemed appropriate.

So, our annual operating plan and budget is developed each year, and then further along on this cycle, you can see that we have progress and achievement reporting that happens throughout each year, and that's where we use our ICANN meetings for community engagement. We hold several webinars throughout the planning cycle, on either kick-offs, or timelines, and of course, as it relates to our public comment period.

And we have dashboards and a portfolio management system, which again are part of our achievement and progress reporting throughout the year. Next slide please, oh, we have a question. Tijani, please.

TIJANI BEN JEMAA: You said, while preparing for the annual operating plan, you said it is an update of the five years operating plan, and update of the five years strategic plan, if any. I don't think it is, at this stage, that we make the update of the strategic plan. It is one phase later, when we go to the implementation of the operating plan, and we start the next cycle, that's where we update the strategic plan.

BECKY NASH: Thank you for that comment. Yes, that the five year strategic plan is set for the five years. We do provide an update to the five year operating or strategic plan, which later in the cycle, could develop into an updated strategic plan.

XAVIER CALVEZ: I'll just add to that, Tijani, that the reason why Becky was saying, if necessary, simply, if there would be an event, that would affect the strategic plan, we could not necessarily ignore it. We should not ignore it. So, we are not presuming, and it's not expected that the strategy plan should change until we look at updating it. But if there would be an event that suggest that it has changed, we should reflect it.

That's the only thing we're seeing there.

TIJANI BEN JEMAA: And that's what we have to do at any time, if there is an event. So it is not at this stage exactly.

XAVIER CALVEZ: No, I agree with you, but what we do is at least on an annual basis, we check that there is nothing that happened that should lead to a strategic plan update. And that's a quick check, but we do it nonetheless. Thank you.

BECKY NASH: Thank you for that question. Yes, Sebastien?

SEBASTIEN BACHOLLET: It's other question, but I think we need to help Elise. She needs to go to the reception, then if she has something to present, please let's go directly to what she needs to do, because it's almost more important where she needs to be, then to be here, and if we don't need her, just leave her to go, if not, give her the floor now, and it doesn't matter if we are a little bit mixed up later on.

You will help us through that. Sorry.

[SPEAKER OFF MICROPHONE]

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ELISE: Thank you Sebastien. So, thank you very much Sebastien, and Xavier, and Becky for asking me to be here to talk about the PTI FY 18 budget, draft budget. And this draft budget is right now, in public comment. So, we're hoping that you all will provide feedback, so that we can finalize it and move forward.

The schematic that you're looking at the graph here, shows how PTI operations has funding, and that funding includes direct costs for dedicated resources, direct costs for shared resources, and support services allocations.

The description, except for the one line which kind of looks funny, of what direct costs, etc. are, is on the right side of the screen. There is also ICANN operations funding. And for FY 18, this includes the root zone maintainer agreement. Together, that bottom line direct cost dedicated resources, direct cost shared resources, support services allocations, and the RZMA, are what are the total costs for the IANA services. If we can move to the next slide?

Did we move to the next slide?

Thank you.

So, this is basically a high level overview. It says that the total budget is approximately 9.9 million with some rounding. PTI is

9.6 million of that, that's for the operations that I've just showed you on the previous schematic. And the root zone maintainer agreement will cost $0.3 million.

So, our baseline expenses, minus a contingency fund of approximately half a million dollars, increased $700,000 to 9.1 million. And this was due to some additional personal costs, incremental travel, support for oversight bodies, such as the Board, and support for Customer Standing Committee, as well as support for the root zone maintainer, which is included in overall services.

The PTI contingency is to support insurance, communications, traditional stuff that you have a contingency fund for. This is slightly decreased from the previous year. However, the formula that was used to come up with a contingency fund is consistent with the formula that's used for ICANN's budget contingency fund.

It says, yeah, let's go to this one, that's fine. So, this is the budget by client groups. So, the primary IANA functions are names, numbers, and protocol parameters, which I'm sure you're all well aware of. And what we have here is the budget for FY 18, the budget for FY 17, and the variance, that's what the three separation of the tables are.

And as you can see, we spend most of the money, not spend most of the money, most of the resources are dedicated to the names function, followed by the protocol parameters function, and then the numbers function. And the, each of those have slightly increased between FY 17, except for protocol parameters, which has a small decrease, but that's probably just a rounding error.

And if we could move to the next one. So, this gives you a better break down just from the buckets of how money is spent, not what function they're spent on, has to do with personal travel, professional services, etc.

And we expect to have an average head count including, the direct shared resources from ICANN to help support us in the sense of IT support, financial support, HR support, and that will be 22.6 FTE. The department itself, which has been formally known as the IANA Department, will have 16 head count in FY 18.

We added two additional head count, which would be a software developer and an additional cryptographic key manager. Does anyone have any questions? Shall I pause here? Yes, Tijani.

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TIJANI BEN JEMAA: I thought that the root zone maintainer was a free of charge contract with VeriSign.

ELISE: The cooperative agreement between NTIA and VeriSign was a zero dollar cooperative agreement. However, for VeriSign to continue to provide that service, there is a cost associated with the contract between ICANN and VeriSign. It's $25,000 per month.

TIJANI BEN JEMAA: So, it's not free of charge anymore?

ELISE: Not anymore. We don't have any free lunch anymore. Pardon?

[SPEAKER OFF MICROPHONE]

Did anyone else have a question on the past few slides? Yes, Sebastien.

SEBASTIEN BACHOLLET: Yeah, one question. If something happen, [inaudible] and with a lot of [inaudible] associated, and I have no idea what it could be. Just [inaudible]. Do you have any agreement between PTI and

ICANN to help with that? Or is it mandatory for ICANN to do it? Or, we will need to go to a specific process to do that?

Yeah, that's my question. I don't know if it sounded stable, but…

ELISE: So, I'll try and repeat the question. I think you asked if something unexpected happens, and it takes money to do that, how will we get it done? So, we do have the contingency fund, which is about a half a million dollars. If there is something addition, say the numbers group were to come to us and say, you know, we really want you to revise the entire way that the registries look, and it's going to take, you know, we really want you to do this development work, at which point, we would have to cost that, we would then have to go first to the, you know, the PTI Board, we have to prioritize that, we'd have to go back to ICANN, because of the contract.

They actually have the contract with the numbers, and they would have to agree with the numbers folks that this would be budgeted, and then ICANN would send us a change request order to expand the service that we'd agree to provide, and they would fund us to do it.

SEBASTIEN BACHOLLET: Thank you for your answer. It's Sebastien Bachollet, for your answer, but I was most thinking about something, I don't know, you need… Something happened tonight, and you need, tomorrow, to invest $2 million to, I don't know, have new server on the moon, or whatever. Something you need to do absolutely straight on.

Then you don't have the time to go to through all the process of the budget. Is it something that ICANN will help PTI too? Or, you will take care, you will be in deficit, and we will see that at the next budget?

ELISE: So yes, if it's that urgent, we'll take care of it. But I'm going to defer to Xavier to say how I'm going to get the money out of him.

XAVIER CALVEZ: So, thank you Sebastien. It's a helpful question to explain the process. So, the simple principle is that ICANN funds PTI. And that's absolute for any approved expenses. So, if we would need to put a server on the moon, I think it would be sufficiently taking a long time, that we would have completely the possibility to improve that expense between the PTI Board, and fund, and the ICANN Board, and fund that expense.

So my point is that we don't have to wait for a budget cycle. The budget is simply a tool to manage, but the reality of the business would put, in your example, the necessity to expense 2 million the next day. We would simply go to the Board, we need to do this, it needs to happen, it's approved, and we're going to spend the money, and ICANN will fund PTI to do so.

It's a very direct principle. I think we have Tijani asking a question.

TIJANI BEN JEMAA: Yes, if you want to go, it is because a general question, and I think it is for ICANN to answer it, not to PTI. I thought that PTI is an affiliate incorporation. It means that, affiliate is a non-corporation, they have their budget, their money, everything. So, I see that you are managing the budget of PTI.

Are you? Or, just you will give them the funding yearly, and that's all?

XAVIER CALVEZ: When you saw we're managing the budget of PTI, it's actually the general management of PTI, who is Elise, who manages the budget of PTI with the PTI Board. So, I'm nothing in PTI. Right? We have officers, one of the officers is here, of PTI. We have…

Two of the officers are here. Elise is an officer as well, you have the manager.

PTI is managed by PTI management and the Board. And you're right, it's a separate legal entity. It's an affiliate, and there is a contract between PTI and ICANN for resources, and resource funding and so on. So, it's very structured and the governance framework is very clear.

It's separate, not independent, but separate.

ELISE: Next slide then. Nope.

UNKNOWN SPEAKER: Just thought I would throw in a little related question. Is it correct to assume that the shared direct costs would include costs of support from the ICANN Finance team to PTI? Now, and that would be shared direct cost, not allocated. You probably wouldn't have to allocate that.

XAVIER CALVEZ: Quick description of the costs. So, the allocation or allocations of support services. So, to be precise the allocations contained finance, HR, legal support, and so on. The direct shared costs, what we call direct shared costs, are those functions of ICANN

that provide a service to both PTI and ICANN, like for example, IT.

So, IT have put in place systems, and maintains them, in some of those systems are used by PTI, or by INS services, and the others are used by ICANN. We simply distinguished the support functions from the services that directly contribute to the IANA services, like legal, for example, that we're reviewing. The decisions in some. It's just a bucket-i-zation exercise, but the direct shared services are very directly individually identified.

The allocations of support services are a percentage, so it's normative.

UNKNOWN SPEAKER: And that's fine. It doesn't matter to me rather it's allocated, or shared direct, it was more just kind of a point of interest, whether you, which way you do it. Okay.

UNKNOWN SPEAKER: Sorry? Xavier, I think in FY 18, there will be some degree of independence in the IT, on those shared services, right?

XAVIER CALVEZ: So, there is a number of services that IANA requires, that are unique. Those, whether they're IT related, or development

related in some, those services will be independently organized and managed by IANA. But, those services that don't require, that are not unique to IANA, will likely continue to be provided by a function that is general, whether it's IT, or legal, or maybe communications, that will simply leverage the ICANN organization to provide that service also to PTI.

So, when you say independent, I think you meant actually separate. And not necessarily everything will be separate and duplicated. Part of the rationale for that is that instead of duplicating and infrastructure, an organization, and incurring costs, we're leveraging an existing function, so that we minimize the costs, and leverage synergies, basically.

UNKNOWN SPEAKER: Okay, sorry Xavier [inaudible]. That means the measure of the costs for that would be in this budget, right?

XAVIER CALVEZ: Correct.

ELISE: Absolutely correct. Tijani.

MARY: Hello, can I?

ELISE: I'm sorry, Mary, yes go ahead, Mary.

MARY: I think my understanding is that, just like AfriNIC was housing AFTLD [inaudible], and managing for it, drawing the budget and all of the rest of it will still be done by AFTLD and then, when they want, when an expense is going to be done, they request for.

And maybe Xavier will correct me if I'm wrong, I think the final shared transactions of PTI will still be done within ICANN, but a separate budget is being, you know, it's a page altogether, is being meant for them. And again, maybe you clear for us, these 9.9 million, will it be set aside in a bank escrow? Or what all the expenses, whatever PTI requests for expense, you go and draw the money, give them. Thank you.

ELISE: So, I believe the answer is no, I won't be writing or signing checks. And that it's mostly a leger activity. So, Xavier, I'll let you talk to that.

XAVIER CALVEZ: Becky, why don't you explain how it's going to work?

BECKY NASH: Thank you Xavier. This is Becky. Yes, as we indicated earlier, PTI is an affiliate of ICANN. So, the sole member is ICANN, and the processes that ICANN will fully fund the expenses related to PTI, there is a service level agreement in place, where there will be an invoice from PTI to ICANN which will exactly equal all of the support services for both the direct, the direct shared, and the allocated expenses.

So, as we have been talking, I think we used the word separate, but not independent. Very similar to a subsidiary versus a parent corporation, in this case it's an affiliate with a sole member. And I think Chuck, you have a question.

CHUCK: Not a question. I just want to communicate something. Mary and Xavier will remember this very well, but the way this is all coming about was all part of the CWG stewardship recommendations and work down by design team O, which Mary assisted in. The shared costs, the doing it more cost effectively, what Becky is talking about. With that, I have to excuse myself and leave for the evening.

But, there was a lot of work put into this as part of the CWG recommendations.

ELISE: Tijani, please, I won't leave until you ask your question.

TIJANI BEN JEMAA: It's not a question, perhaps a remark more than a question. I find that sharing the IT services is a little bit dangerous, because the life of PTI is based on the IT. And as we said in the CCWG, the budget of PTI is not negotiable. We cannot, the community cannot object to it, cannot… It is straightforward. While, if it is a shared service, it might be affected by the decision of the community, and this is very dangerous for PTI, I think.

ELISE: So, I think that there is a difference between the shared services for IT, where it's support for our computers, and support for the phone system, and things like that, versus direct shared resources. We have dedicated resources in IT that support us. And for instance, we have dedicated IT facilities in the sense of the key signing ceremony.

And those are covered in our budget as direct costs versus… But we have a lot of infrastructure support, instead of having to buy our own networking lines, and things of that nature. So it's not as if we're totally dependent.

XAVIER CALVEZ: And one last comment on that. There is a contract, or a set of contracts, that define the services that PTI require, and that ICANN has committed to provide to PTI, so that the IANA functions can operate. And this is in accordance with the proposals, and so on.

So, it's not… ICANN doesn't have a choice. It is contractually obligated to provide to PTI the functions and services that are required in order for those functions to be carried out. So, the community input on ICANN's budget, for example, is one that needs to be informed with the fact that ICANN has obligations that are contractually defined, and they have been actually required by the community as well.

ELISE: And if I can just add, one of the reasons we're talking about the FY 18 IANA services budget now, is that part of our commitment is that the PTI and IANA services will be funded in advance of ICANN looking at their budget. So, for instance, for some strange reason, there was a decrease in the amount of funding available to ICANN as a whole, PTI and IANA services would be funded in advance of consideration for other things.

I'm sorry, I do have to apologize and leave, but I know that Becky is well-qualified to speak about this, as treasurer of PTI. Thank you all.

XAVIER CALVEZ: Thank you Elise.

MARY: Excuse me Xavier. While she was presenting the funding, if you go back, you see that the funding from IRI, and IETF, they are short of what ICANN is proposing, as funding. Why this is two point something million, expenses sorry, not funding. It's expenses. Expenditure.

The expenses that PTI would be incurring on their behalf, is far higher than what the funding ICANN estimated for them. We have 2 million and two point something million.

XAVIER CALVEZ: Okay. Can you go back a slide please? Okay. So, our estimation on the basis of breaking out the costs of IANA across the three communities, leads to the 1.4 million that you see at the top there, for example, for the numbers. The RIRs, which are the numbers, contribute to ICANN, $823,000 per year.

This is not an estimate by ICANN. This is a voluntary contribution from the RIRs, and they decide how much they fund ICANN, and they can fund zero if they want to. It will remain that costs of operating PTI, as allocated by ICANN in this version, on this slide, will remain 1.4 million, irrespective of how much the RIRs are contributing.

If you think about it, put it differently, the IANA functions are provided by ICANN for free. There is no billing of anything in PTI. Right? Does it address your…?

MARY: Yes, thank you very much. If, by the transition, root zone manager not charges money. So, why should it still be voluntary for the services that ICANN is rendering to the numbers community and the names community going to be voluntary?

XAVIER CALVEZ: Because the community has decided that would be the case.

ALAN BARRETT: Yeah, hi. This is Alan Barrett. I work for a RIR. I'm not sure that's accurate. I think the intent of the SLA that RIR signed with ICANN, was that the RIRs intend to pay the actual costs of providing the IANA number functions. And the current contract

does have a figure of $650,000 in it, but there is also a clause that says it can be changed subject to mutual agreement or something.

So, it remains possible that ICANN could go to the RIRs and say, sorry, it's going to cost more than 650, it's actually going to cost 1.4 million. So, that contract can be renegotiated.

XAVIER CALVEZ: Thank you Alan for clarifying, and you're correct. I want to point out to something. 650 rounded, is about 700 K, right? You can see the amount that appears on the top line here, in the numbers column. It is point seven. So what happened in the MOU, that the RIRs have signed with ICANN, is that the RIRs have agreed that a fraction of their contribution of the 823 K that has been consistently paid by the, in the NRO on behalf of the RIRs over the year, a fraction corresponding to the direct costs that are here, rounded to 700, which is effectively 650,000.

Would be applied against that voluntary contribution of 823 K. So, but the costs for ICANN, as allocated in this fashion relative to numbers for the IANA functions, is more than the 700 K. It's only the direct costs. The RIRs simply at the time of the negotiation of the contract, have chosen to recognize the direct costs, and not the direct shared or the support services allocation.

And I agree with Alan that simply if there would be a mutual desire by both parties, the RIRs and ICANN to change that contract, then that contract would change and the amounts could change. But I think it has been the desire from the RIRs that the total amount of contribution to ICANN doesn't change, and that the fraction corresponding, the fraction within that contribution, that is allocated to the IANA functions, corresponds to the direct costs, not necessarily the total costs.

ALAN BARRETT: I'm looking at the text of the contract, which we've actually called in Ital, it says, "The RIR shall reimburse the operator," that means ICANN, which really means subcontract to PTI, "reimburse the operator for the cost of performing the IANA numbering services." So that the text in that contract doesn't say direct costs, it says costs.

XAVIER CALVEZ: I know. I participated… Sorry, to the finalization of that agreement from the ICANN side, and that's why I was saying that the RIRs have recognized only the direct costs, because that takes [inaudible] just the direct part of the cost, even though the language of the agreement does say costs entirely.

So, what you just pointed out that I can actually send an invoice to the RIRs for the remainder of the costs.

ALAN BARRETT: It's a little more complicated. You can't just send an invoice, you have to get an agreement in writing by all parties, but that is something that you could do…

XAVIER CALVEZ: I'm joking, Alan, I'm joking. Thank you for pointing that out, that was helpful. Next slide. Or…

SEBASTIEN BACHOLLET: Just a question. We were talking, and it was really interesting about the number, I guess, for the name. I have an idea of what is happening. But what is a bad protocol, parameters, something special in the SLA? Like for the number, no exchange of money or whatever.

XAVIER CALVEZ: Thank you Sebastien. So, there is no financial agreement, or let me rephrase that. There is no financial provision in the agreements between the IETF and ICANN for the providing the IANA functions. So, there is no financial compensation. And I think that honestly, and Alan may be able to help with that

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background, I think the fact that there is a financial contribution for the RIRs is simply because there has always been a contribution from the RIRs to ICANN, it's simply being used to say, well, by the way, that amount that we're providing, we're going to say that a fraction of it corresponds to the funding of the IANA functions.

But for the IETF, there has never been a contribution, and the services continue to be provided for free on that basis. Okay. We have 10 minutes left, we're going to go… Jameson, you have a question?

JAMESON: Yes. Sorry if I'm taking you back. You say without any costs, then how come we see you have a direct cost input? Is this what ICANN would take care of?

XAVIER CALVEZ: Go back to the previous slide please. So, carrying out the IANA functions for ICANN costs the 10 million that is here. We have tried to estimate how much of those costs are driven by which function. So, this is an ICANN exercise. It's a modeling exercise. It's not a bill, if you see what I'm saying.

And the IANA services are provided for free. PTI does not bill to any of its customers, anything. The 823 K that we've talked

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about from he RIRs is a voluntary contribution that's been put into a contract, but between the RIRs and ICANN, in that allocates a fraction of it to the IANA functions.

But the IANA services are provided to its clients, in quotes, to the three communities for free. So, this is just an allocation exercise. It's not a contribution amount agreed upon.

UNKNOWN SPEAKER: Very quickly, I just wanted to cover this next slide, which is the next steps as it pertains to the PTI draft, FY 18 budget, operating plan and budget. So, as a reminder, the draft, FY 18 operating plan and budget, is out for public comment at this time. It was posted the 24th of October, and that public comment period will run through the 10th of December.

We do look forward to comments, and at the conclusion of the public comment period, we will have calls to clarify the comments, and then also to prepare our responses. Step number two here, indicates that we'll have the response period by the 31st of December.

Step number three, is the final operating plan and budget will be submitted to the PTI Board on or around January 20th. I'll just note that also, there will be a step there to submit as an information to the ICANN Board finance committee, as well,

during that timeframe, and then four and five are the steps for approval where the PTI Board will approve on or around by January 30th, and the ICANN Board will have received a recommendation from the Board finance committee for approval on or around January 30th.

So, I know that through this session, we've jumped around a little bit, just due to everyone's schedule, but I started to cover the overall process overview for the timeline. And we had some specific comments and questions for the community, as it relates to the information that we publish on our website.

So, if we could go back to the next slide, 19, I just wanted to cover very quickly the high level calendar, for the planning process, and as it's noted here, we do have this calendar in two pieces. We have the PTI, FY 18 operating plan and budget process, which again, is underway, and the draft is out for public comment.

And as Elise had indicated, the reason that we have this process starting so much earlier is based on the CWG recommendation to have the budget for PTI start nine months before the beginning of the fiscal year. So again, we are on track to have the PTI budget approved, by the PTI Board and the ICANN Board at the end of January.

The bottom of this slide then has the overall process for the ICANN planning process, and as we indicated, this is our consultation as it relates to our budget working group for planning for the FY 18 operating plan and budget. And subsequent steps will be the budget development, ongoing community engagement through webinars and also at ICANN 58.

And the ICANN total budget is scheduled to go out for public comment in early March. I do want to highlight that there is a process for the SO and AC additional budget requests submissions, which also starts at the end of December, and then all of those items move forward on the timeline, where final adoption of the budget will be on or around mid-June.

So, I don't know if there are any questions. I'll pause here for a moment. Tijani?

TIJANI BEN JEMAA: Thank you very much. I thought that [inaudible], the PTI Board will approve the PTI budget, but the ICANN Board will approve it later.

XAVIER CALVEZ: We have had this discussion with the CWG and the GTO, which is a working group within the CWG and Mary and Chuck are a part of it, and it was recommended that both the Board of ICANN,

and the Board of PTI approve the budget within the same timing. I think the rationale there is simply that the community, through the voice of the CWG, felt that that it was important that the commitment of the ICANN Board to the funding of the PTI budget, happens at also the same time that the PTI Board is approving the budget.

So, I think this is the rationale for the coincidence between the two Boards approval of the same budget. What happens then next, nonetheless, to your point, is that then this approved PTI budget is incorporated in the overall ICANN budget, that then is being finalized, put through public comments, and so on.

So, there is still then another opportunity for the community to also comment on the PTI budget, even though it has already been approved. But even though it has already been approved, if there would be comments from the community, provided through the overall ICANN public comment process, that would suggest changes to the PTI budget, could still be done.

The PTI Board could revisit its approval, could change the budget if it decides to, and reapprove it later. It simply helps this approval at the end of January, by both Board helps formalize the approval, and by the Board of PTI, and the commitment by the Board of ICANN to fund this budget.

So, it's not, let me leave it at that. You have another comment.

TIJANI BEN JEMAA: I understand now. It is like the community special request, approved, prior to the approval of the whole budget, and then, okay. I understand.

UNKNOWN SPEAKER: Thank you for your comment. So, I think at this time, we just wanted to have a quick time check. We are approaching 7:30, which is the scheduled end of this session. I'm not sure if we have additional time. There are a couple of items that we did want to consult with everyone about, as it relates to the planning process.

If we could go to this slide, advance two slides please? This is an overview here of all of the documents, as it relates to the five year operating plan update, and the current year FY 18 operating plan and budget.

We've covered many of these items today, including the funding and the types of assumptions. We have the operating and capital expenses, risks and opportunities, head count, the FY 18 operating plan and budget for total ICANN will have a multi-year view of the new gTLD program. And then we also have the operating plan and budget by objective goal portfolio, and project. And we also listed, last year, the top 15 projects.

It is those two items that we had some additional questions on. I'm not sure if we have time to go into that at this time. So, if you go to the next slide, this is where we have…

[SPEAKER OFF MICROPHONE]

It is very small print. But just, as an example here, we are showing what was posted as part of the adopted FY 17 budget, where we have the budget by portfolio, by project, and we really wanted to get some feedback as to whether this information along with the top 15 projects that we published as of last year, was useful information.

And we wanted to open that up for comments.

XAVIER CALVEZ: While you're thinking about that question, just want to point out that this is simply an illustration of what the budget produce is. Each of the line at the bottom that you can see here, corresponds to one project. There is about 350 projects that are disclosed in this fashion in the entire budget for everyone to comment on.

So, this is a relatively large level of granularity, that has now been produced for the past three years. We wanted to reconfirm with at least those of you who have participated in this process in the past, whether this is an adequate level of information, to

continue producing looking for Mary, Jameson, Tijani, those of you who have already participated, but also for anyone else to have comments on that level of information, in order to, for us to confirm or effect, possibly, what we produce.

Any…? Jameson.

JAMESON: Yeah. There is no doubt, it's very good. We're talking about need for more transparency, and more granularity. So, it's just in tandem with expectation. [Inaudible]

MARY: I think the new ICANN requires. I don't think we should go below this. Thank you.

XAVIER CALVEZ: Thank you. Tijani? Okay.

BECKY NASH: So, the next slide, we have the update as to the current status. So, just as a recap, based on the session that we've had this evening, this is an update for the FY 18 PTI operating plan and budget. And as indicated by Elise and through our discussion, that draft is out for public comment. And the public comment

period ends December 10th. We do look forward to comments from the community.

And we are on schedule then to have the PTI Board adopt the FY 18 PTI operating plan and budget, at the end of January. As it relates to the ICANN operations, five year operating plan update and the FY 18 operating plan and budget, it's under development. Tonight we discussed many aspects of the assumptions, and we do appreciate all of the feedback, certainly as it relates to the funding assumptions.

And at this point in time, then, the budget, the templates are going out to the budget owners. We're developing all of the project based resource plans, and we work with [Sirus] and his team on updated assumptions for funding for FY 18. And we are on schedule to publish the draft for public comment in early March.

The draft SO and AC additional budget requests that we were just talking about, that process is also going to start a little bit earlier this year, and start the beginning of December. So, more information will come out about that process.

Are there any comments on the current status? Jameson?

JAMESON: Yes, thank you Becky. Well, you did request that we could submit some comment prior to this meeting. So, which the busy day, and I think we can still update this before the end of the public comment period, right?

BECKY NASH: So, if I understand your question correctly, I believe you submitted some preliminary comments, and they were labeled as preliminary comments for the public comment period for PTI. Is that correct?

JAMESON: Yes. So, I was thinking if it was addressed, we could focus on something else, but before December 10.

BECKY NASH: I think, we did send out an email, I believe, yesterday, just asking the community if there were any clarifying questions that were needed, as it relates to the draft FY 18 PTI budget. Was your request related to clarifying information so that you could better understand what was in the budget? Or are they formal comments that should be considered as part of the public comment process?

JAMESON:	Oh yes, they can be considered as part of the response, you know, to the PTI. It wasn't requiring any more clarification. My point is that, if some of those issues there are addressed, I was thinking, at this meeting, because that was the impression I got, so if they're not, no problem. We can still update by December 10.
BECKY NASH:	Yeah, thank you for your comment. No, we did not intend to actually address the public comments in this particular meeting. And again, if there is a need for any clarifying comments, we are going to publish that to the entire community so that they can then make more useful comments as it relates to the PTI draft budget.

And then we will address all of the public comment periods, public comments as that period closes on the 10th of December. I hope that answers your question. |
| XAVIER CALVEZ: | Thank you. I just wanted to acknowledge that [inaudible] and [inaudible] the Board member and the chair of the finance committee had joined us some time ago. Thank you [inaudible] for taking the time. The BFC is extremely involved in the overall budget process, and it pays a lot of attention, the process |

happens adequately, and that the process includes, as it should, this sufficient and adequate interaction with the community, of which this is an example.

Thank you [inaudible] on behalf of the BFC to be here. Thank you.

MARY: I have a question please. I came in here by default because of my work with the [DTO?], right? And I want to clarify whether I'm free to continue to come to this working group, when I'm supposed to be formally sent by my constituency? Thank you.

[SPEAKER OFF MICROPHONE]

XAVIER CALVEZ: Mary, there is no limitations, nor requirements, no condition at all to participate to this group. You just need to be interested and willing to participate, which you are, because you are here. So, there are no conditions whatsoever. Please feel as free as you want to participate. And we welcome you very much, as usual.

UNKNOWN SPEAKER: Mary, you are here because I told Xavier to look for you. Right?

XAVIER CALVEZ: I didn't have to look for her, she came here on her own.

UNKNOWN SPEAKER: I said you make sure Mary is here.

XAVIER CALVEZ: [Inaudible] did say that. On that, thank you very much to everyone for your participation. Thank you for the… Thank you for those of you who have always participated to also be here today. And Chuck, and [Rolof], and Cheryl have left, and [inaudible] have been participating.

Thank you for those of you who have participated for the first time. This is really nice to have you, and I hope you will continue to participate with us. Your input is very useful.

Thank you everyone. Thank you Jessica and Becky for all the work. Thank you for Phillipe to have participated remotely, as well as to Linda.

[END OF TRANSCRIPTION]