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COPENHAGEN – Budget Working Group  
Tuesday, March 14, 2017 – 17:00 to 20:00 CET  
ICANN58 | Copenhagen, Denmark

XAVIER CALVEZ:

Hello, everyone. We are going to start in a few minutes. I want to welcome the participants that we have remotely as well. A number of our team members who are based in Los Angeles, are in the Adobe room. And I think we have also possibly some other participants. Jessica, can you check please, who is remote? On the list. I see also Phil Buckingham, I think, is in the Adobe room. Hello, Phil.

And we have... Okay. We have Mark McFadden as well. Welcome, Mark. And for those of you on the Adobe room, we will try to make sure that we break at certain points in the course to ensure that you have the opportunity to ask questions, or participate to the conversation as it goes.

We have practical matter. We have a dinner setup outside the room right here, that's specifically for this group. You're most welcome to help yourselves now, or at any point of time, with the food outside and bring it back here. And we will try to have two breaks, one, two, one break. One break, during the three hours. Let's not waste the time, right?

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So, please feel free to bring back the food as you would like, as we go. As you'll remember, for those of you who have participated before, this is meant to be a very interactive meeting. The point here is to be able to interact in the sense of allowing a free flow of conversation on the topics that we're going to go over.

We have materials that are aiming at feeding this conversation, not necessarily containing it. So, if there are topics that are on the side, or additional to what we are offering, you should absolutely feel free to bring them up so that we can address them. We don't pretend to have a comprehensive and perfect view of all of the topics that are of interest.

So, welcome very much the opportunity to talk about the topics than those that we have planned for. There is a number of other members that will come in. I know there are a few members who just coming out of other sessions to join us here, or at least I hope. And they will arrive shortly. [Inaudible] is the Chair of the Board Finance Committee, and also indicated that she would participate, at least for a certain amount of time at the beginning of this session.

So, I think others are on their way. I will introduce this session a bit further, and then the team will start walking us through the slides. But, one thing that we want to make sure we do is, look

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at the agenda together so that you can provide input as to things that you would like maybe to see happening either differently or additional topics.

Yes, Elise.

[SPEAKER OFF MICROPHONE]

Yes, I do. I know most of the people, but not everyone, so let's do that. Trang, do you want to start? We'll do a quick roll call, and we'll also make sure we list everyone who is in the Adobe room. Thank you, Elise.

TRANG: Trang [inaudible], ICANN org.

CYRUS: Cyrus [inaudible], ICANN.

UNKNOWN SPEAKER: [Inaudible], Nigeria.

UNKNOWN SPEAKER: [Inaudible], Vice Chair, BC.

TIJANI BEN JEMAA: Tijani Ben Jemaa, ALAC Vice-Chair.

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ELISE [GERRICK]: Elise [Gerrick], PTI.

MARY [DOMA]: Mary [Doma].

XAVIER CALVEZ: Xavier Calvez.

BECKY NASH: Becky Nash, ICANN org.

JESSICA: Jessica [inaudible], ICANN org.

TARYN PRESLEY: Taryn Presley, ICANN org.

PATRICK: Patrick [inaudible], ICANN org.

PHILIP: Philip [inaudible], dot BE.

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UNKNOWN SPEAKER: [Inaudible], ISPCP.

JAY: Jay [inaudible], BC.

UNKNOWN SPEAKER: [Inaudible], ISPCP.

XAVIER CALVEZ: Thank you. For those of you who just arrived, you're most welcome to help yourselves with dinner outside at any point of time, we'll have a break about mid-way through this long session. But, exciting session.

UNKNOWN SPEAKER: Sorry. [Inaudible] speaking. Can I have a first question on the format and arrangements here? I have to leave at 6:30 because, not because of cocktails, but because of a Council meeting. So, that's the question, what is the timeline here?

XAVIER CALVEZ: Thank you for coming, at least, before that. So, that's the welcome. And you're not the only guilty participant who will have to leave at 6:30. A few others will as well. I know of other participants who cannot come before 6:30 and intend to come

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after, even though it will have been a long day for them. So, no worries and thank you for being here, actually.

Can I have the next slide please?

So, as a reminder for those who know, and as an information for those who don't, for the new ones, we have created this session, the format of this session in the past, about two years ago, in the rationale for this is that in addition to a public comment process that's very formal, that's virtual written on a lot of information, we felt it was useful to create a format that allows a lot more interactive interaction with the, between the community and the staff.

And also allow to possibly go more in-depth than the very static public document can allow to do. So, we created this format to be able to interact, allow a free flow of conversation on any topic relative to the planning process and to the budget. Because of this purpose of being interactive, you should feel very free to ask questions, or provide input at any point of time. Just raise your hand, we'll make a note of your request to intervene, and we will bring the conversation right there.

The purpose, at the end of the day, is to have community feedback that's direct and interacting on the operative plan and budget, and also on any other topic that is of interest relative to

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finances or planning, or the strategic plan, or simply how ICANN manages its resources.

For us, it's also a very useful opportunity to understand what is of interest, what are the concerns that you can share, and that it can have in your organizations. So, that's also something that is providing us a lot of information. So, as I said, it's interactive. We use the microphones because they are people in the remote participation Adobe Connect room.

This is a meeting that is recorded, so that others can listen to it down the road, and as we said we can, open for questions at any point of time. What do we want to get out of this? Is a deep and mutual understanding of community interests and information that staff manages or can provide, which allows us, of course, to have, at this stage of the budget process, have better understanding of what you are interested in.

You will have a better understanding of what is made available through the public comments. And you will have the opportunity, of course, as well, to provide insights or comments as to what we have [inaudible] provided, and that we should look at in the future. With that, I welcome those of you who have arrived just now. Lori, if you want to grab dinner, you're most welcome to do so. As we go, and Becky is going to go over the agenda.

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At this point on the agenda, I would like that we can, that you would provide input as to first of all, if you have seen already a number of that. I know some of you have already seen some presentations, but others may not. We can adjust, shorten, expand, shuffle as well the topics. So, your input on that agenda would be helpful to receive, because we would like to make sure that this is addressing as much as it can your interests and input. Becky?

BECKY NASH:

Thank you, Xavier. This is Becky Nash. And on the table of contents, we just want to go over the sections of this presentation, just to make sure that we have as interactive a session as we can. And in the event that there are areas that any of the group attendees would like us to focus on.

The first section is an overview of the five-year operating plan update, and the FY 18 operating plan and budget. We provide several highlights. We will try to go through them quickly, but again, if there are areas that you would like us to focus on, one area that we will be focusing on this evening, just will be a little bit more topic of discussion around the funding and the funding assumptions.

And then we go through the expenses, with highlights and some detail. And then on the next slide, we continue with the total



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ICANN draft FY 18 budget. And then sections that relate to the new planning process and next steps. The next key topic listed on the agenda, here, is topic number three, which is the planning process for FY 19 and beyond. And that is an area that we would like to present some concepts and get feedback from the members here today, on some possible next steps for FY 19.

And then we have a section on community engagement and several slides in the appendix. So, at this time, if anyone wants to speak up as to recommendations on what to cover first. Tijani?

XAVIER CALVEZ:

Just one comment on the community engagement. This is a section during which we would like to exchange with you as to how to expand, change, improve the engagement with the community. What would be useful to do more of, less of, differently. So, that's definitely something that we will welcome a lot of input on, including obviously, of those who have a good experience of the budget process, but as well as those who don't. So, Tijani, please go ahead.

TIJANI BEN JEMAA:

Thank you very much, Xavier and Becky. Since I am leaving early, I will perhaps propose that we start by the planning for FY

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19, because FY 18 is already published for public comments, so perhaps it is more interesting for me to attend the, what will happen in the future about the planning. Thank you.

XAVIER CALVEZ:

Thank you. We can consider that. I don't know if there is more interest from anyone else, looking at FY 19 first, knowing that if we would do that, well, everybody thinks about it. If we would do that, we will still want to try to talk about funding for FY 18 and the funding assumptions, while we have Cyrus here, because I know he also will have to leave down the road.

Why don't we start with the funding on FY 18, and then we'll see how that leads us? And we can then take it from there. Becky, do you want to walk us through those slides, and then we can describe the...

BECKY NASH:

Yes. Thank you, Xavier. Okay. So, we are jumping to slide number, if we go to the next slide, please. Slide number 13. This is an overview of the draft ICANN operations FY 18 funding. The draft operating plan and budget, has the best estimate scenario of 142.8 million for ICANN operations. This slide here, just gives a picture of the percentage by type of funding. We're on the left-

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hand side. Those are the revenue or funding related to transaction fees, driven by the domain name registrations.

At the top of the slide, are the registries, and at the bottom, are the registrars. And on the right-hand side of this slide are fees that are fixed fees, or are annual accreditation fees, that are driven by the number of contracted parties, with the registries on the top left-hand right of the fixed fees, of 30.8 million, or 22%. And on the bottom right-hand side, the registrar accreditation fees, plus application fees for any new applications during the year, at 12.1 million or 10%.

And again, down at the bottom, we list other funding sources at approximately 3.7 million. So, at this point, I would like to go ahead and hand it over to Cyrus, where we have on the right-hand side, the estimated scenarios, and then on the next couple of slides, we have assumptions.

CYRUS:

Thank you, Becky. This is Cyrus [inaudible] with ICANN. So, for the most part, going into FY 18, I'd like to call it having reached our cruising altitude, in terms of the major buckets of contribution to our revenue. I think Becky already mentioned that the new gTLD application process will be completed in terms of delegation.

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There is a fixed fee component to that, that really will be completed by the end of FY 17. There is, the other bucket is the, what we call the legacy gTLDs. They went through a gyrations that began in earnest in the December quarter of 2015, when there was a fairly good-sized spike in transactions, primarily driven out of China. That spike seems to have worked its way out by the end of 2016 calendar year, and we expect that, the transactions for the legacy gTLDs to resume their normal pace of about 2, 2.3% growth.

And this is what you see reflected in the best estimate of 142.8 million. The other major contributor to our revenue, of course, is the new gTLD transactions. We expect the best estimate to reflect a 23% growth rate in the number of transactions in new gTLDs. The number of domains in the new gTLD space are about 30 million today, just for reference.

The low estimate that you see reflected there, assumes that the new gTLD transactions and other components remain the same. There are some indications that perhaps the legacy space may actually have a slower growth rate than the historical 2.3%. So, in our model, we have assumed 1.5% growth rate.

And, as you can see the impact to that from a financial perspective is not significant. That's what you see in the low estimate of 142.3 million. The high estimate maintains a growth

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rate of 2.3% for legacy gTLDs, but also increases the transaction rate of new gTLDs to about 60%. And you can see that's more of a material impact to overall revenue.

Another component that we have actually figured into our model has been the number of accreditations of registrars. In the past two, two and a half years, we've had a fairly good-sized increase in what I call bulk registrar accreditations. This is the market where a small handful of registrars come in with hundreds of accreditations.

Each one of which contributes to our revenue with their application fee and registrar fee, and when you multiply that by hundreds, it becomes a material component of the revenue. We expect this market actually to have reached its peak during the FY 17, and in fact, actually start going down, because I think it's actually over-subscribed in terms of the market that they're looking after.

So, those are the big contributors to our revenue. Anything else, Xavier, that you would like to mention?

XAVIER CALVEZ:

We have in the public document, we have the slides that we are showing here, and that display and disclose the assumptions that are retained for both the best estimate, the high end, the

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low estimates that Cyrus just commented upon. And we have also here, a table that shows the number of contracted parties that we're assuming, of which the reduction of the number of registrars accredited that we are making an assumption on for FY 18 that Cyrus just mentioned.

The registries and registrars of you who are.... Any comments on the assumptions? Paul.

PAUL:

Thank you, Xavier. It's Paul [inaudible] from Public Interest Registry. I shared with you last evening, and I'll share with the group, the assumption there for accreditation fees as they relate to registrars, it is my expectation, my organization's expectation, that that is probably overly conservative.

Incredibly, we've reached out to the two groups that have driven this tremendous increase in accreditations over the last two years, in the expectation that they're going to say, okay, we're done. They're going to level off, or, as is being considered up here, declined. That was our expectation. They told us, no, they have no intention. In fact, they may add yet more.

There is an absolute arms race between these two groups, the Phoenix group, and who is the other one? The folks behind [inaudible] commerce. So, if anything, that particular element

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of the budget is probably conservative right now. It still doesn't fully make sense to me. They've somewhat described their business model, and they seem to really believe in it.

So, as I shared the other night, it may be, that may be a bit of a pad in the budget this year.

XAVIER CALVEZ:

Thank you. And we have reflected in the high estimate, a higher growth of new gTLD transactions, and we have certainly, relative to the number of registrars, we understand it's a conservative assumption. We believe it's actually a matter of time for that to happen. We thought it would happen sometime in FY 17, it hasn't, we are carrying forward this assumption in FY 18, and you're pointing out to the fact that it doesn't actually look likely.

So, it's therefore and even more so conservative approach than we thought. So, thank you for that input. That's useful. I think Chuck is in the queue, and you want to comment after that, Cyrus. Thank you.

CHUCK:

Okay, that's good. So, one of the things that didn't make sense to me is, how many low estimates are the same as the best estimates. Now, it makes sense on the registrar variable fee, which is on a fixed amount, so regardless of how it has spread, it

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still comes out the same. But it doesn't make sense to me in all of the others. Why is that?

CYRUS:

Thank you Chuck and Paul. Interesting data point from Paul. The faith of the bulk registrar market continues to baffle me, frankly. Just to give you a bit more granularity in terms of what we have, we have about 400 distinct registrar families within ICANN. Today, we have 3,000 accreditations.

As you can imagine, the majority of the registrar families are single accreditations. There is about four entities that carry, I would say, about 2400 or so registrations. Now, we've been having the same type of conversation that you mentioned, and what we've been told does not line up with what they've told you. So, we need to definitely double check that.

We also have a model in which we actually calculate the total available market for drop catching. And then we also go back and calculate what it costs per accreditation for each one of these entities that has hundreds of accreditations, just the fees they pay to us adds up to millions of dollars.

And what I see today is that total available market is actually now beginning to look smaller than what the outlay of cash



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needs to be, for each of these [inaudible] fishing pole in that pond, that is really run by VeriSign, for all practical purposes.

The other data point that, in fact, I'm hoping maybe Chuck can comment on, I don't know, that we're hearing is that VeriSign may actually be changing the rules by which every accreditation gets access to the drop pool, I think it's called, Chuck. Yeah. And that's sort of the entry point into the pool of available domain names that are on their way to be un-registered, so to speak, and gives us an opportunity for this small pool of registrars to essentially go look for valuable domain names.

That's the market model. So, that's part of the reason that starting in September 2017, which is our FQ of FY 18, we have modeled in our base line of estimates, that that market is going to start to sort of changing, and some of these accreditations will disappear. I'm very interested to hear what other data points you have, that you might be able to share with us to help us fine-tune this, but this is basically what we have.

To respond to Chuck's question about the sort of the narrow range between the low estimate and the base line, part of the reason for that is because even the base line, based on these assumptions of accreditations actually going down, I would characterize as somewhat being on the conservative side, so I

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didn't really have any material convincing argument to sort of lower any other estimates.

So, this was sort of the logic behind it. I hope that helps.

UNKNOWN SPEAKER:

If I can maybe give a really brief history, because I'm sure a lot of people have a lot of questions about the drop pool. I can't even remember what year it was. Were you around when we had the drop pool, introduced it, Paul? I don't know. Yeah, you were.

Well, what happened was, now, as registries, we're required to give all registrars basically equivalent access, so that... And we got to a point where there was such a domain for deleted names, that our systems were being overwhelmed, taking over by the people going after deleted names. You probably don't even know this history, right?

[SPEAKER OFF MICROPHONE]

Yeah. I mean, some registrars couldn't get in. So, we actually had to shut-down that, the registration of deleted names. I think it ended up being about a month while we put a new system... Is that right? Does that make sense? You were one of them...

He was a registrar. And until we put a system in place, it's called the drop pool, okay. And we had the control, the... Provide

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different access to the drop pool from the regular registrations, so that we didn't... So, people who were doing registrations would have access. And that worked pretty well. And I don't know about any changes coming, but I'm not that close. I can find out. I'll ask.

But one of the things I've noticed in watching the new registrations coming in, because I see at least some high level, there are a whole bunch of registrars being accredited, that appear to be... Some of them are called drop catch one, drop catch two. Things like that. There are a variety of names, but lately they've been coming in, in large batches. So, that's happening again, and that's why we're seeing the total number of registrars, the number going way up.

So, a little bit of background for those who wonder where this is coming from. There is, they look for deleting names that may be particularly valuable, and they will register automatic processes to register those, but they have to do it through the drop pool. Okay?

XAVIER CALVEZ:

And just to make sure everyone is clear as to why this is an assumption that we need to spell out, ICANN charges an application fee for the new registrars, so \$4,000 for that new application. We have been projecting very conservatively that

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number of new accredited registrars, because it was very unpredictable for us, what level of new accreditation would be applied for.

Outside of that wave effect, a relatively standard number was like 15, maybe, new registrations per quarter, about 50, 60 per year. But over the past two years, we've had between 500 and 1,000 new ones. But without us being a really able to project that and plan for that.

So, we continue to forecast a very minimal level of accreditation, therefore we're not counting on that income from an ICANN standpoint. We have a question in the remote participation from Phil Buckingham. Becky, do you want to read the question?

BECKY BURR:

Sure. Thank you, Phil. The question that you've written here is regarding assumptions, regarding fees. We are assuming that it will continue with a fixed fee and variable fee element, with no increase in the registry fee agreement at 25 cents? I hope I've got your question correctly.

XAVIER CALVEZ:

So, I think the question is, are we assuming that continuation? Right?

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Yeah. So, Cyrus, do you want to answer?

CYRUS: Thank you. Thank you for your question. This is Cyrus. That is correct. There is no assumption of changing any of the fee structure that we have based on our contracts with our registries or registrars.

BECKY BURR: So, we're going to go to the next slide. I'm sorry, we have another question.

UNKNOWN SPEAKER: Yes, thank you. This is [inaudible]. If you just go to the previous slide, I just wanted maybe, yeah, previous one for this. No, a little back, sorry. Back, where I saw, this percentage.

I was just looking at the 12.21 million dollars, that could be difficult, 10% of the one for the 2.8. So, 10%. Just [inaudible]...

Were application fees accreditation fees, say 12.1 million projected, and this 10% of the total budget. I'm thinking it should be 14.3% or thereabout. And then the question I wanted to ask is that, earlier we had the opportunity to hear from you, and thank you for that briefing. We got a sense that the

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expected projected increase of 5% [inaudible] this time around, 2.3%.

So, I don't understand.

BECKY BURR:

Thank you for your question. This is Becky. I just wanted to clarify that earlier this week, or today, we presented that it was a total funding increase of 5%. So, when we were talking now about the transaction volume increase for legacies at 2.3%. I hope that clarifies. So, on the next slide, some of the assumptions that we've listed are by type of funding source.

And we'll move to the next slide.

UNKNOWN SPEAKER:

To follow-up with his question, I take it that 10% doesn't mean 10% of the total. Because he was pointing out that that's not 10% of the total.

BECKY BURR:

Yes, on slide number 13, we'll revalidate all of the percentages, but it is intended to be 10% of the best estimate, and noting that we do have other funding sources listed at the bottom of 3.7 million.

[SPEAKER OFF MICROPHONE]

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UNKNOWN SPEAKER: No, thank you. It just what [inaudible]...

XAVIER CALVEZ: So, is there any other insights on the funding? The legacy TLD's growth is something that we've assumed about 2.3% growth a year. It is largely driven forth by the historical trend of growth. We are not trying to speculate as to whether that historical trend will change radically. The low end of the bar is 1.5%.

We have retained 2.3%, we feel it's a middle of the road type of approach probably on the slightly conservative slide. But of course, it's a significant part of our funding. Yes, please.

UNKNOWN SPEAKER: You're still using the same algorithm to do this. I think it's helpful to tell to people that haven't been involved with this, that you've tested this algorithm quite extensively, and it has been shown to be quite reliable. It's something that we've learned over the last couple of years. So, this isn't just a rough guess.

It has been tested, and I think it's important for people to know that.

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XAVIER CALVEZ: No, you're correct. Also on the new gTLD side, we look at growth rates as well as renewal rates on new gTLDs on a TLD by TLD basis. And the reason for that is because those TLDs are sufficiently new that their renewal rate actually matters, as to whether the transactions are going to be there.

I also want to remind everyone that the new gTLD transaction levels are billable by ICANN only above a certain threshold. And how much of the transactions, how much of the registrations that occur, become available to ICANN is also a parameter that we monitor fairly closely, in that we bake into the assumptions. We have a question here with Tony.

TONY: Yes. Thanks, Xavier. One of the issues that was pointed out to us from one of the earlier presentations in the ICANN meeting, was that there has been a significant behavioral change with regards to registrants making defensive registrations. [Inaudible] going down that path anymore, and that was a significant element of registrations in the early days.

And my question is, has that change been factored into this?

CYRUS: Thank you, Tony. This actually goes back to what Chuck was saying. So, a couple of things about the model as a whole. So,



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needless to say, in ICANN, we have access to a good trove of volume of data, historical data, in terms of transactions. And that really helps us with the modeling of what goes on in the so-called legacy space.

So, we go back to 2010 actually, and on a quarter by quarter basis, we sort of chart what has been the level of transaction. And if, it's a fairly consistent curve of two to 2.3% of change on an annual basis, on a positive growth basis. If there has been anomalies in that curve, we go back and investigate to see what's happening there.

At the moment in the legacy space, the base is so large that I don't see, we don't observe any meaningful impact by whether defensive registrations actually continue to exist in a meaningful way, or are they not there anymore? It doesn't seem to be making much of a change to the curve, because the substance of it is huge.

You're looking at 140, 150 million domains under management. The one component that seems to be actually able to make a change, make a dent into that curve, appears to be in China. There has been a lot of speculative transactions going on, it's not what I call organic demand for the domain names, but investors in China apparently have found an appetite to buy

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domain names, both in the new G space as well as in the legacy space, in terms of building a portfolio of them.

And from what we understand, they actually do trades with them, and there are some other things that probably I don't know. But to answer, the short answer to your question is that, no, we don't see that as a material contributor to the number of volumes. And part of that also, I think, is because even in the new G space, the base is growing now to a fairly sort of consistently large size, 30 million or so domains under management, so that's a good size, good volume.

In terms of the accuracy of the model, there are two buckets of it, that would be able to make a meaningful change to our forecast. One of them is what we talked about, which is the number of accreditations of the registrars. Xavier mentioned that every accreditation application fee is \$4,000.

On an annual basis, they pay us \$4500 just to sort of maintain the accreditation, so it adds up very quickly. As I mentioned earlier in our model for FY 18, for three-quarters of it, we actually project a decline of 250 accreditations per quarter. This could change, like Paul was saying earlier, they actually have talked to some of these portfolio players, and they see actually an increase in number of accreditations.

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If that happens, it can change the models substantially. The other component that was a material contributor is the number of new gTLD transactions. So, that's a market that's still very embryonic, it's still somewhat volatile. We've seen it do this whereas the legacy is very consistent. We have historical data. It's a very stable market.

Like I mentioned before, the new gTLD space, our projection at the moment is 36% increase in number of transactions, and maybe people who are in that space are in the [inaudible] and others can comment, on our view of it. This one is a lot harder to project. In our model, we actually sort of go look at TLD by TLD, of which there is now over 1,000, and put our best estimate based on market information and information we get from our people in China, publicly available information, other sources, and put our best guess in there.

But it is really a best guess for a new G. If that 36% becomes 60% or 70%, then it can actually sort of move the dial. If it goes down to 10%, it can move the dial. So, these are the two pieces of it. Thank you.

PHILIP:

Philip [inaudible]. I would just like to share a comment. I don't have a view of the worldwide numbers, of course, but I do follow being responsible for Belgium, I do follow the Western European

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markets for the ccTLD market point of view, and new Gs, because we're also managing two small geographic gTLDs. And our forecast model is quite simple for the moment, but the same in the whole, in all Western European countries, the market is flat.

The new Gs, local like dot Berlin, dot Pairs, dot Brussels, in our case, is flat. That's our projection for 2017, and as well for dot BE, and if you look at dot NL, dot DE, dot UK, so the really large ccTLDs, they're all, they will be glad if they had the same numbers at the end of the year as in the beginning of the year.

BECKY BURR:

We have a question in the chat from Phil Buckingham.

He asks, "What renewal rate is being used for the top two registries X, Y, Z, and TOP with 40% of the market? Most highly speculative registrations."

CYRUS:

Thank you, Phil, for your question. If memory serves right, the renewal rate continues to be healthy, even though, as I mentioned in the December quarter of 2015, there was a fairly significant spike in transactions, again driven by China. In particular, in X, Y, Z and TOP and some of the other Chinese

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domains. And we fully expected these actually not to renew, but it appears that the majority of them have renewed.

If I remember correctly, at the moment, in our model, which is based on actual data that we have received, it's closer to 78%, 80% renewal rate.

XAVIER CALVEZ:

And as an additional data point, I think that for dot X, Y, Z last year, we had planned for a renewal rate of 10%, because most of their registrations were free domain names given, and by definition, we know that normally those free registrations of one year just don't renew. And as Cyrus said, we've been very surprised to see that the renewal rate of those three registrations was very high.

CYRUS:

If I may add one more comment, this is Cyrus. That doesn't mean that there is real true organic demand that is driving these renewals. So, we're keeping a very close eye on this as well. We have information that sometimes that the registry gives away, basically, the renewal. There are one or two RDMs. Some of these are even registered to the registry themselves, and they [renew?] to themselves.

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There is some of this jockeying going around, and this is why I was saying that it continues to be difficult to forecast this market with accuracy, because the level of true organic demand is a subset, of course, of the total market. And the market continues to be dominated by the top five, six players, the TLDs. And they continue to fight for market share, with marketing dollars, or very substantially reduced renewal fees and such.

So, I don't know how sustainable that business model is in the long term.

JAY:

Jay [inaudible]. I have a question about your funding assumptions for fiscal year 18. I'm wondering if they incorporate any potential changes to the dot net registry agreement? As you know, JDD has a practice of recently reducing fees for legacy TLDs, to get things like Trademark Clearinghouse and URS incorporated in their registry agreement.

And, you know, dot net I think is the second largest TLD. So, any reductions in those fees would have an absolutely material impact on your revenue.

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CYRUS: Thank you, Jay, for your question. I think we addressed this earlier, that there are no fee changes contemplated in the model in any of our registries or registrars.

CHUCK: This is Chuck. And with regard to dot net, as I'm sure you know, the fee is quite high on a per register basis.

JAY: Yeah, no, that's my concern that is suddenly if ICANN is using 50 cents or something, of a domain name, it's spread over what the number is, eight or 10 million domains, that's a lot of money. 14 million. So, \$7 million a year, that's, out of \$142 million budget, that's a sizable chunk.

XAVIER CALVEZ: Thank you. Any more questions on the funding assumptions or input from anyone? Okay. So, at this stage, we're suggesting to move forward on this one aspect of the FY 18 budget, one more aspect that I would like, we could touch on, and I would like also to talk a little bit about the FY 19 planning process, because I know a number of you need to leave us around 6:15 or 6:30, or 6:00. Okay.

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How are we going to do this? Let's talk about the caretaker budget.

UNKNOWN SPEAKER: Some of us plan to come back, but we at least need to be there for the intro.

XAVIER CALVEZ: So, just so that everyone has that visibility, the FY 18 budget that is currently under public comment, contains an innovation which results from the transition implementation, the INS stewardship implementation is that we have inserted into the budget presentation a section on the caretaker budget, so let me back up a second.

You remember that, as part of the accountability mechanisms put in place on October 1<sup>st</sup> with new bylaws, there are a number of community powers of which, two are relative to the possibility to reject strategic plans, operating plans, and budgets. In the event of the rejection of the budget, then the organization needs to be able to operate.

As a result, a caretaker budget would be put in place to replace the budget that would have been vetoed after the Board has approved it. So, the first step is that, the Board approves a budget that the community determines to veto. The veto



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process, the escalation process, gets all the way to a decision to veto, and therefore the budget is rejected.

At that point, the caretaker budget kicks in and replaces the vetoed budget until the resolution is achieved with a revised updated budget, that then gets approved by the Board. During that period of time, which we don't yet know how long it can last, a caretaker budget would be put in place. We are offering, in the current draft that's on the public comment on the FY 18 budget, a fairly straightforward and simple approach to calculate, to determine what that caretaker budget is.

And I'm going to go over it relatively quickly here, but your views on whether that makes sense or not, would be helpful. And here, I'm talking, generally speaking, about the ICANN overall caretaker budget. There is also a bylaw, a separate caretaker budget just for IANA, for the IANA functions.

So, the caretaker budget approach that we are suggesting for ICANN is to use, of course, as a basis the approved budget, but then removing from it, a number of elements. First, we are suggesting that any new positions, new hiring positions that would be considered by the organization from the date of the veto, is then suspended. That basically, new hiring is not being posted from the date of the veto.

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Next, we are suggesting, and I'll explain why there is a limited scope here. We're suggesting to simply reduce the, we have competing presenters here. We are suggesting to reduce by 10% the total budget of travel and meeting costs, as well as professional services, during the period of the veto.

So, our budget, which is annual, is also broken out by month, and we would use that budget by month to reduce, basically, the allowed amount of travel and meeting, and the allowed amount of professional services, during that period, by 10%. And I'll just finish quickly, Laureen, I'll give you the floor.

And the last thing that we are suggesting to exclude from the approved budget, to come up with the, or come down with the caretaker budget, is to exclude any expenses that would be included in the approved budget, and would have been the subject of the reason why the veto is approved.

So, let's take an example. If the budget would suggest, we should create an office in Rio De Janeiro, and that the community came to consensus, does he know we don't want you to know that, and the Board still has approved that. If a veto would be approved by the community because of that reason, of course, we would suggest that we don't, we hold off from creating that office in Rio De Janeiro until an approved budget is revised.

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So, it's simply common sense. We're not going to do what we already know is not wanted, in quotes, right? Let me stop there, I think Laurie has a question or a comment.

LAURIE:

Hi. I have a question and a comment, I guess. My comment is, I think it's a good idea to have a caretaker budget because you can't halt ICANN operations. So, that makes complete sense, obviously. Well, maybe not so obvious. But what I'm concerned about is this 10% of travel meeting and professional services less.

Now, I don't recall, but why would you reduce the travel? Because there might actually be a need for more meetings to resolve whatever the rejection of the budget issue is. So, that one, I could see the community not responding well too as a proposal, unless you were going to separate travel from professional services.

Like right now, it's one line item travel slash meeting and professional services, or is it 10% of travel and 10% of professional services?

XAVIER CALVEZ:

It's 10% of each, yes.

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LAURIE: Okay, so for the professional services, maybe that makes sense, particularly given ICANN's history of hiring a lot of consultants, and lawyers, and I'll include lawyers in that because, as [inaudible] well knows, even though I am one, I felt like the spending on lawyers' fees has been insane.

So, that I could support. But the travel, I think, is not going to well on the community, unless you can justify the 10%. So, can you? I guess that will be my last question.

XAVIER CLAVEZ: So, that travel line, here, is inclusive of everything, right? Which means, in buckets, staff travel, community supported travel, in any meetings that would happen during the period of the veto, inclusive of ICANN meetings. So, it is a constraint, there is no question about it. It creates a burden that may not be welcomed during that period.

LAURIE: So, do you feel that as a trigger, or a stick, or whatever you want to call it? I mean, is that here to just incentivize resolution?

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XAVIER CALVEZ:

So, the... I'm glad you're raising that question. The spirit of the caretaker budget, as per number of community members who provide an input in the design of the caretaker budget at the time, was to make it painful. Make it painful, so that there is an incentive for everyone to resolve it.

And that everybody should share the burden of that veto happening. So, I think, the input from you all on, does that make sense or not? And now, but also through public comment, please say what you think about it, because, do we want to make it painful?

Or do we want to give a more mature approach to resolving a veto on topics that are controversial, but not necessarily creating other issues through that caretaker budget otherwise?  
Chuck.

CHUCK:

Sorry to jump in. This is Chuck. But I have to take off, but I will come back. But that last one, less expenses that trigger the veto, that makes sense on a new expense, but maybe that's what that should say, new expenses that trigger the veto. Because actually, there could be a veto that has to do with continuing expenses, and you wouldn't necessarily want to reduce the budget by that.

XAVIER CALVEZ:

Thank you. So, I think we've tried to say that in the document, but this is a slide, it's very summarized, but you're entirely correct. We would exclude only new initiatives that would trigger expenses, because we could hold off on them. If the topic would be about stopping an expense that has been ongoing, continuing, it would obviously be a lot more complicated.

So, what we have not said here, so that everyone understands is that, and it's in the public document, is that anything we're proposing here, needs to respect the principles that have been stated for the veto. And for the caretaker budget. Among those principles is that, the implementation of the caretaker budget should not lead ICANN to waste resources.

And Mary, who participated to the [inaudible] with Chuck, remembers that we've been very careful to state principles that will help us assess individual impacts of individual types of expenses, that would be either included or excluded from the caretaker budget. So, and these principles supersede everything that I'm suggesting here. So, we would want to avoid wasting ICANN's resources by either stopping, or cancelling, an activity that would then create a contractual obligations, for example.

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So, imagine that we've hired a consultant to do a study. This study is vetoed. Let me rephrase. Is one of the reasons why the budget could have been vetoed. We would want to look at the contractual impact of cancelling that study on ICANN's resources. It may be overwhelming costly to do so.

So, we would want to look at those principles when doing that as well. Makes sense? Yes, [inaudible], please.

UNKNOWN SPEAKER:

Thank you Xavier. This is [inaudible] and I'm chair of the Board Finance Committee. So, I just wanted to make a very quick point about the veto and the caretaker budget, which would over-arching comment really. And I think, Chuck, you'll know what I'm talking about is, I don't ever want to come to this stage.

And that's the whole purpose of this session today, and the session we're going to have tomorrow on, when is it Thursday? Thursday, as well as the fact that we have posted the budget for public comment. I want everyone in this room to comment, to read that document, comment on it, tell your colleagues, tell your friends, tell all of your associates.

Now is the time to bring in the comments on the budget, not later, so that we can avoid this kind of situation. This was really

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not meant to be something to be, you know, this was meant to be a last resort tool, if I may.

And I think, Chuck, you would be in a better position to speak about that.

CHUCK:

In fact, I don't remember whether you were in the GNSO session, I know Xavier was not, but what I said to the GNSO over the weekend, when we were talking about the budget process, was that it would be irresponsible on us to support a veto if we hadn't carefully and fully participated in the process.

So, and so, I'm reinforcing what you're saying, saying it in a slightly different way, but we do have that, and that's why it's good to see all of these people here.

UNKNOWN SPEAKER:

Exactly. I do recall saying that I was there, and that's a very good comment that you made, and I really appreciate that. So, I just want everybody to bear that in mind, that we really don't want to come to this stage, but it's good that we're going through the what if analysis, what would happen if we had to, if we end up here. Thank you.



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XAVIER CALVEZ:

Thank you. From memory, the rejection power of the empowered community can only be activated on the basis of comments that would have been submitted during the public comment, but that would not have been addressed by ICANN, or on changes that would have been made after the public comment period is closed, and before the budget is approved by the Board.

So basically, anything that has been in the draft that's published, it should be commented upon, and if that comment has not been addressed, then possibility for a veto, or an expense that was not included in the draft submitted for a public comment, and has been inserted after the end of the public comment, and before the Board approves.

Basically, logically, the empowered community was saying, well, if you include something that we've not had the opportunity to comment upon it, then that's a loophole in the process. So, it's a logical exclusion. Okay. Any more questions on the caretaker budget or the empowered community powers? Yes, Jay, please.

JAY:

So, this is about looking at contractual obligations under a caretaker budget scenario, and I certainly understand the practicality of not terminating a contract as a massive penalty for doing so, but I do think there is a little bit of concern on my

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part that ICANN might start writing language into the contracts, that they could potentially see being controversial, that would make it impossible for those to be cancelled.

So that, I mean, maybe this is a little bit conspiracy theory-ish, but I get the practical approach, but then there is also a kind of obstacle concern there.

XAVIER CALVEZ:

So, there is a bit of conspiracy mindset in there. Let me put things in context. I am an officer of the company. I have a fiduciary duty to ensure that we act in the best interest of the company. The best interest of the company is not to create clauses, contracts that it is difficult for us to get out of. Right? So, we're going to do exactly the opposite of what you're afraid we could do.

Is to ensure that we have the terms in the contracts that best support the company's activities. And if we carried out an activity that then leads to a contract, it's because we think it's in the benefit of the organization. Now, of course, the scenario of the veto is that the community would not agree with that.

But, you're going to have for a second to trust that the fiduciary responsibility that is on the Board members, and on the officers

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of the company, does matter to them, and [inaudible] does. I don't want to go to prison.

Okay. But, I completely understand the theoretical logic of what you expressed. But hopefully, we'll never have to get there, as [inaudible] said. Yes. Any more comments, questions on the veto and caretaker budget?

Next.

BECKY NASH:

This is Becky. Thank you, Xavier. We're going to move to slide 35. I would just like to inform those of you that have arrived a little bit later than the start of the session, at the beginning of the session we took a poll with the attendees that were here, and we decided to take the opportunity to jump around, because there are some conflicting schedules this evening.

So, we plan to go to the FY 19 planning process.

XAVIER CLAVEZ:

So, quick background on FY 19 and beyond, from a planning standpoint. As Chuck was saying a little bit earlier, the empowered community survey, I didn't spell it out here, EC stands for empowered community, creates powers for the community, but with great powers come great responsibilities.

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And what are those responsibilities? It's that the community now needs to be able to understand the activities of the organizations, such that it can then exercise effectively and [inaudible] those new powers. So, from that perspective, it means that ICANN as an organization needs to ensure and support a broader engagement of the community, a better understanding of the community, for example, as we're talking about the budget process and the planning process, an understanding of what the organization does, how the organization plans for its activities, how the organization determines its priorities.

So that then, comments, public comments or comments through these type of forums, or on webinars, whichever is the format, can be provided to the organization to help guide it in the right direction, which is delivering on its mission. So, this is a responsibility on the community, but this is obviously a responsibility of the organization to help support that.

So, how do we organize our planning process so that it helps that overall responsibility to be assumed effectively? One of the topics that we've been discussing a lot with community members over time, as well as, within the ICANN organization, and with the Board is, the point is less to talk about money, and more to talk about what we do, because what we do is what triggers the expenses.

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So, we need to be able to talk more and to describe better and to talk more about that operating plan. What are we planning to do? Those of you who participated to this process in the past know that we publish, as part of the public comment, a break down by project of our expenses.

For each of the 340 projects, you can know how many staff members are assigned to that project, how much personal costs, therefore those staff members trigger. How much travel and meeting costs are associated with that project, or professional services, or administrative costs, or capital costs, by each of the 340 projects. It's a lot of information, but it's an information that is aimed at allowing you to be able to understand which of these projects are relevant or not relevant to what you think the ICANN organization should do.

As a reminder, each of these 340 projects are mapped all the way through to the five strategic objectives of the organization. So, we are able to link clearly, each of the activities that we carry out to the strategic objects, and therefore whether these projects contribute to the accomplishment of the mission.

Now, this is a lot of information, but this is a critical element of public comments in my views, that we are, we received comments from the community on whether or not activities should be carried out, or should be carried out for less money, or

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should be dedicated more funding. This is how the operating plan is determined, and then, it's at that stage that it makes the most sense to receive a lot of input from the community, because this is where you have the opportunity to provide input as to what we should, how we should do it, what the priorities of the organization should be or should not be.

The money becomes simply the translation of that operating plan. The budget is no more, no less, than the financial quantification of an operating plan. Of course, once we've decided what we do, we want to be able to do it as effectively as possible, and that means the best value for the money.

We need to have procurement processes that help us reduce the cost of the services that we buy, etc. etc. I want to emphasize as well, that you have heard, maybe, some of you, [inaudible] as vice-chair of the Board, express what the Board's areas of focus or priorities are over the next few weeks and months. He expressed that during the GNSO and Board meeting.

One of them is, improve the financial discipline with maturity of the organization, with it, as Cyrus was putting it, where we are now arrived at a stage of cruising altitude, in quotes, relative to our funding. We also need to make sure that we have discipline around what we do, how we do it, how much it costs to do it,

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how we manage also our funds, our operating funds, our reserve fund, etc.

The Board is very focused on that, and with your input, Laurie.

LAURIE:

Yes. We talked a little bit about this in Hyderabad, and I'm going to reintroduce it today, particularly in terms of the fiscal 18 planning. I think it is essential. I know you have come such a long way in producing the PowerPoints, and trying to explain the deltas, and having segmented approaches to the budget, but I still think we are going to need very high level, very easily accessible documentation of the budget to explain to the entire community.

Because what typically happens in the stakeholder groups, I know in the IPC, it's certainly, so I'll just speak for my own constituency, is that maybe one or two people in a constituency are designated as the budget people. You know, whether that's written into the bylaws, or whether someone just has a bizarre interest in finance, who knows?

But that's generally how, yes. I speak for myself. But that's generally how it works. And I think, for this oversight power, to really be effective, it can't be a few core people in a few core

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groups who get it. I think one of the biggest challenges we're going to have is to translate this into an acceptable way.

And speaking as a lawyer, I know how difficult that is, particularly with numbers. ICANN, and I've said this, has one of the most difficult budgets to read that I've read for a large organization. And it looks like that it might be purposefully obscuring. Now that I've sat in quite a few of these meetings, I believe that's not the case. I just believe that it's a complex budget, but in the beginning I wasn't sure.

I was skeptical, to be honest. That being said, I don't know what kind of help, or expertise, or I don't want to say finance for dummies, but I do. That there has to be away in one or two pieces, to tell the community the big picture on this budget. I think if you don't, there is a real risk that either people will overreact, because they don't understand something and want to reject something, or underreact.

So, how do we get the right level on a complex subject?

XAVIER CALVEZ:

Thank you, Laurie. And I'm very happy to hear what you said, because we've been starting to think within the team here as to, how do we lower the bar? To your point, it's a very substantive, data intensive, complex topic. And unless you have experience,



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which you use Philip or others in ccTLDs, unless you have an experience in planning, and budgeting, and managing on the balance sheet [inaudible], it is a challenging exercise.

We offer, or slam on you, 130 pages, 140 pages of information. Some of it very technical. It is not an easy exercise, and we think that part of the reason why we have the Tony, the Tijani, Chuck, who have been here for a long time is one, their interested. But they've invested time to start understanding both the process and the data and the content, and it's not easy.

So, your input is very useful because we've talked about a five slide presentation that summarizes, at a very high level, the budget. Steve [inaudible] last year told us, you know, it's a lot of data. It's difficult to get there. Tony will remember that five years ago, the criticism that we had logically is, there is not enough data.

And that's not incompatible. In my views, we need to offer all the spectrum of access. Right? Another, so we're getting right into that conversation. Another topic that we have, or another approach that we have talked about is, trying to maybe change the presentation of the budget so that we organize it by topic, and let me take an example.

If we talked with people about the budget, it may not be very interesting to many. But if we talk about the resources

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dedicated to policy development, maybe it would be more interesting to some. Or the resources dedicated to outreach, or to regional engagement, or to travel funding.

So, a topical approach to the budget rather a very holistic approach to the budget. And we've been thinking about that because you should not have to understand the entire budget to be interested in it and be able to comment about it. And some of you are simply interested with relatively narrow aspect of the budget, and that's perfectly fine.

So, that's one of the things that we thought we could try to do as well, in addition to very high level, view one sheet with five numbers. You know, if there is only five numbers in the budget of ICANN, what are those five numbers? So, welcome that, and I know that you have other comments.

LAURIE:

Yeah, I was going to say, I would definitely support that approach. I think as long as that five slides have the references to the 50 slides behind it, for those who want to dig into the detail, I think that makes perfect sense. I think the topics are more digestible, because I know, my perception is, that from the community, it's basically what's coming in?

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What are you spending? And where are the changes? And they want to know that in relation to their own interests. Okay? They're not... It would be nice to say that we're looking at this because we have this new community power, and we're looking at the whole picture, and there are some that do and I suppose many won't.

XAVIER CALVEZ:

Absolutely, I agree. So, that's... We've just talked about two different aspects of evolving how we present that budget, very high level. The quick thing. And we'll talk more about that. There is organizing the budget presented by topics. Tony, you have a question or comment?

TONY:

Well, I just wanted to comment on that because listening to Laurie, really interested in that perception, because I think, for some of us, I can only say, over the last three or four years, I consider the level of information, it has improved tremendously. And certainly, it may be because you've got more used to it, that you know where to look.

But, the approach where you've had a big picture view, that a lot of people have asked the initial questions on, and then doing it on the policy aspects. I think that would be tremendously

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helpful. I would also encourage you, if you can do that, maybe to then have some of the sessions with the people interested in those elements.

Because for me, I try and do exactly that. I look at the bits I'm interested in. And look at the big picture stuff, and the rest of it, I don't get a lot of time to do. But to be able to come here and give some detailed analysis of the parts that are relevant to you, would be tremendously helpful.

XAVIER CALVEZ: Thank you, that's very helpful. Sorry, Jessica, go ahead.

JESSICA: We have an online comment from Phil Buckingham. He says he agrees. We need a KPI summary one-pager.

XAVIER CALVEZ: Thank you, very useful. And anyone else on this topic? Do you want to go over...? Yeah, another aspect of improving our process that we've talked about is multi-year planning, and Becky is going to cover that.

BECKY NASH: Yes, thank you, Xavier. Just continuing on with an overview of thoughts that we have about the FY 19 operating plan and

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budget process. One of the other topics is a multi-year operating plan and budget process. So, what we would like to talk about here are the benefits related to having multi-year operating plan and budget process, that permits us to align long-term expenditures to long-term funding projections.

Another benefit is a longer-term view with alignment to changes on priorities and goals, so should there be changes on priorities and goals over time, we can see that on the horizon. Another key benefit of a multi-year process, is the ability to amend the spending plans based on priorities and goals, to make adjustments mid-way, and that's, as a result of the fact that each spending plan is approved individually each year, but with a focus on significant changes from the multi-year plan.

Just want to see if there is any comments from any of the participants about the value of multi-year operational planning and budgeting.

Jameson, you have a comment?

JAMESON:

Yeah, just to... This is Jameson. Just to say, actually, at some point, because [inaudible] ability to an extent, and it's quite standard.

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XAVIER CLAVEZ:

Thank you. And you also know that we have a number of activities and projects that are spanning beyond one year. So, if only for those aspects, it would be really useful to be able to project expenses in funding over a multi-year period, which is obviously completely standard in many for-profit organizations.

Our five-year horizon comprises a strategic plan, and an operating plan, for five years, but does not compliment it with financial projections for five years, that would result from not only saying what we think we need to accomplish over the next five years, but also how much resources it's going to take.

So, if we want to do outreach, engagement, compliance activities, over the next five years, how much resources do we expect to dedicate to those activities during that period of time? And does that fit within the overall envelope of funding that we're projecting to receive over those five years?

So, it's basically long-term planning. And we already do a strategic plan and an operating plan that covers five years. Those don't necessarily correlate to the amount of resources that we're expecting to have available. Laurie.

LAURIE:

Hi. I'm going to relay this to a question that I asked at the IPC meeting this morning about projecting growth. Because that's

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always stymied me, because one of my enduring grudges against finance, is you'll see these growth charts and they'll say, 3%, 5%, 10%, whatever it is. And it typically, to me, looks ambitious.

I think it has been a rare time in history where I've seen any sort of financial plan to advocate for aggressive growth, and I think part of that is just considered a good business practice. But I think an equally prudent practice, particularly for a non-profit organization, is that we actually be a little conservative on growth.

And my concern this morning was that there was this planned growth of 5%, and that was going to correspond to a planned revenue of greater than 5%, and but you had also said there was a trend where this was leveling off, and let's not use the word declined, let's say slow, slowing down.

So even if it's not a decline in revenue, it would be a decline in growth, if ICANN has experienced certain elevated growth based on the launch of the new gTLD program. So, what I didn't understand this morning, and what would be interesting to talk about now is, where does the 5% come from?

Is it simply because ICANN is planning for 5% more expenses and that's where we go? Or are you basing it on a global economic

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forecast? Are you basing it on an industry forecast? I mean, where are you pegging that 5%?

XAVIER CALVEZ: Okay. So, apologies, but you had missed the earlier part of the session, where we went over the very detailed funding assumptions. Which are very...

LAURIE: No, I saw the funding assumptions in the beginning...

XAVIER CALVEZ: But during this session here?

LAURIE: Yeah. At the very, very beginning. But I still didn't... Maybe I didn't make the right connection then.

XAVIER CALVEZ: So, the 5% is the resulting impact, or the resulting growth, of the total amount of funding, that we arrive at, once we detail all of the various components of growth that we've discussed with Chuck, and Paul, and others during the beginning of this session.



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LAURIE: All right. So then, how it works is you figure out for your algorithm that has proved successful, I'm sorry. That your algorithm has proved successful. You figured out, it's going to be 5%, we think, based on a good algorithm, and then you say, okay [inaudible]. So, you're following the number. You're following the revenue. You're not building the plan and hoping for the revenue. [CROSSTALK]

XAVIER CALVEZ: We build a funding assumptions on the basis of each of its detailed components, on the drivers of the components. So, we look at the legacy TLD growth. We look at the new gTLD, TLD by TLD. The growth of that. We then look at how many accreditations, how many registrars are we going to have. All of those are the parameters of how our funding will come out.

And looking at every of those components, in making assumptions for every one of them, is resulting into a growth of 5%. So, that's a result. Now, the reason why it's leveling off is because exactly as you said, we've been revamping up the new TLDs from the current round, into the root, which is the triggering point for funding for ICANN.

And we're now capping at the 1200 registries that the new gTLD program leads us to have. So, the fixed fee, as I indicated earlier, and we've discussed earlier, the fixed fee is capping out at the 30

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million. So, now we have a portion of our revenue that will not evolve.

And then the rest is the registration numbers, which we want to be conservatively assessing a growth for. And legacy has been on a trend basis at 2, 3% growth, and we're assuming 2.3% of growth for FY 18. And the new gTLD is also growing a lot faster, of course, because they are recent.

We are assuming about half the growth that the market consensus is on the new gTLD growth. And you may have heard Paul said that he thought we were very conservative.

LAURIE: Yeah, and I think that's good. Actually, I wholly support conservative thinking in this. I think that's prudent. So, I apologize if I didn't make the link.

XAVIER CALVEZ: Just to finish, we look at funding first, and then we ensure that any expense that the expenses that result from the operating plan will never exceed that.

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LAURIE: Yeah, okay. That's what I get. And that's what will need to be explained to our constituencies as we go through these comments, because I think that is not well understood. Okay.

UNKNOWN SPEAKER: I'm just going to make one last quick comment before I run to my Women at ICANN event, but thanks for that. That's really helpful, that last comment made about this perception, that we do it in reverse. And I also wanted to add in addition to what Xavier just mentioned, about the conservative approach, it really is very conservative, and we've actually run these numbers through one of our fellow Board members who is from the industry, and who is also given his perspective to say, you know, he does stand by these numbers.

He does agree that the growth predictions we have put into this, building into the numbers for funding for FY 18 is reasonable. Thank you, and I have to run, and I'm very, very grateful to each and every one of you for coming today. Thank you so much.

[SPEAKER OFF MICROPHONE]

UNKNOWN SPEAKER: ...marching orders from the Board where I need to be next, thank you very much.

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UNKNOWN SPEAKER: Just one thing, just to add to the comments around that. And I've heard [inaudible] mention this before, because so many folks coming from a business background in the community, and in the business constituency, that it is a target that you can just fuel more cost of revenue to go after it, and that's probably where that confusion is of chasing the number as opposed to chasing the target.

XAVIER CALVEZ: You're right. Thank you. Chuck.

CHUCK: Last year, we didn't have a situation where projected revenue equal projected expenses. This year, one of the first things I saw was that, and we commented on that last year, the registries did anyway, but I think there is still an area for comment. Should it be done that way? Should...?

And I think that's probably what you're getting at there. Maybe the 5% number, or 5% increase as it turned out, isn't the right thing to do. Maybe expenses should increase less. And I knew it would come back to what you're talking about...

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LAURIE: To your point, the reserves, right.

CHUCK: That's one area.

LAURIE: Why do that spend? Maybe if you did the 3%, put the other 2% into the reserves, that might be a better goal. I don't know.

CHUCK: With no offense to staff at all, because I think all of the staff that I know, know that I appreciate them greatly. Most companies, at least in the US, aren't doing 5% increases for, just standard increases, excluding promotions and things like that. So, there are still room for comment, but you're right Laurie, it's very important that people understand how this...

And it was a positive thing, because the registries were concerned, I think the previous two budgets were, there was more money going out, then money coming in for that year. They've fixed that this year. And it's equal with some contingencies, if there is funds available.

XAVIER CALVEZ: So, what Chuck is explaining is that in the past, actually including 2017, so 17 as well as 16 and 15, we had expenses that

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would be funded from the reserve fund. So, in excess of our annual funding, and those were relative to the transition. But now, we are, that's an occasion to point out that FY 18 budget is assuming that all of the expenses are funded by our annual revenue.

We are not planning for funding anything from the reserve fund, because we're also not planning for any continuing IANA stewardship transition expenses, even though I know that you must have seen that the WS2 working group is expected to suspend its activities into FY 18, but the plan is that even with the extension of these activities, the cost would remain within the envelope that's been approved.

PHILIP:

Philip from dot BE. The comment that I wanted to make is that I think this is more a strategical discussion than a finance discussion. It is, ICANN has done a great job in putting transparency in its strategic objectives. What I'm missing then is that first of all, the balance between the different strategic objectives, and also then, how far are you willing to go with your investments to obtain these strategic objectives, and which timeframe. And that's... Then you come to this discussion, okay, your revenues increased by 5% because of evolution in the markets. And are you, as a company, also taking the strategic

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decision to increase the expenses by 5%, just in order to reach to strategic objectives earlier.

So, that's more... I don't think this is a finance discussion, this is a strategic discussion. Now, I agree, which doesn't mean that the community doesn't want its input on that.

XAVIER CLAVEZ:

We can call it a strategic discussion, or planning discussion. I think that when you start planning for, on a multi-year basis, by definition, you need to be also more strategic. So, that's another benefit of multi-year planning is that you need to really look at how does that plan support the strategy. Now, our objectives, our strategic objectives at ICANN are also very high level.

They're very aspirational. And so, security and stability, when do you achieve it? So, then it leads to exactly the point that you're making is, where do you decide you need to be, and therefore, what are the resources that you need to put in place? Go ahead.

UNKNOWN SPEAKER:

That's a good discussion, because typically what you do is you have strategic objectives, and they are, as you say, aspirational, but you can break them down in coming to concrete objectives. And then you talk about balanced scorecards, you go to KPI

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level, and then you can also see that's what it's called balanced scorecards, how much of my budget of hundreds am I willing to invest in objective one, or KPI one, and KPI two, and KPI three, and that is not clear how does ICANN to put, let's say, 20% of the budget to obtain strategic objective one, and only 5% for objective two.

And this is not clear for the community, I think.

XAVIER CALVEZ:

No. I agree. And I think that the... I don't know if you have participated to the process of developing the strategic plan, that happened during FY 14 and FY 15, but I remember hearing a lot of conversations about, what are the most important objectives of the organization? And those five strategic objectives that we have today, to your point, are honestly prioritized themselves, right?

So, how do we ensure that we determine that level of prioritization, is obviously a very key element of the strategic discussion. I just want to remind everyone that we have KPIs in dashboard. Those KPIs are structured and organized by the five strategic objectives. What we have found challenging to do is entering a very [inaudible] between those KPIs, and progress against those objectives.



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So, engagement, for example, the engagement activities, what is the return on investment, right? On engagement, when we organize DNS forum in the Middle East, and we have new participants, this is great. But what does it bring to the organization? What is the return of the dollar put into engagement, back to the organization into the community, is a difficult element to measure.

But nonetheless, we have that framework of strategic plan, operating plan, dashboard and KPIs. We need to make that work better together, more tightly together, so your input is very useful from that perspective. Any more comments, questions on this specific topic?

We're coming at a point of a break, so that we can... Maybe those of us who have not eaten can take something to eat. Do you want to have a 10 minute break? Yup. Thank you. Let's pause the recording for the next 10 minutes.

[SPEAKER OFF MICROPHONE]

The timing for this meeting was designed nearly two years ago when we created it. A few of the people present at the time, and we discussed, you know, what's the best? What's the least conflicted time? We talked even about a separate trip, you know, creating a trip outside of ICANN meeting, but that becomes very taxing on the time of people.

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At the time, there was already a very full schedule, so the only option that we went with was to try to have it after the day, as a session at the end of the day, and we are trying to mitigate the pain by providing dinner and now we're, this is marketing. We also provide the wine. That's the marketing part, right?

But obviously, there is a limited capacity for that. And of course, by definition, we're conflicting with them the social events that happens. So, we're always conflicting with something, and but nonetheless, that was the approach. I think we can ensure to rethink what would be best, though the first one was more challenging, that started at 6 finished at 10:30.

But and then it depends on the venue as well. Some venues close at a certain time and so on. No, yes, it's a challenging timing. I'll tell you that if we would do that from 2 to 5, we would have other issues.

UNKNOWN SPEAKER: To show you how motivated I am, I had to choose between the ccNSO cocktail and the meeting.

XAVIER CALVEZ: You know, I realized how much of a sacrifice it is.

That's probably where I would be as well if I wouldn't be here.

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[SPEAKER OFF MICROPHONE]

JESSICA: We'll go ahead and get started again. We have a question in the queue from Phil Buckingham. Oh wait one second.

He says, why not treat the revenue reserves injection payback as, excuse me, contingency cost line at 2% of revenues to be included within the total operating costs?

XAVIER CALVEZ: Phil, if I understood correctly, what I think you're saying is that, and maybe I'm going to formulate it differently, but that you will confirm whether I've understood it correctly or not is that, we basically budget for in excess of X% of funding, or expenses, so that we build in an excess on an annual basis, that would help replenish the reserve.

Is that in substance what you were asking about?

CHUCK: This is Chuck. If I can jump in here, just to share something that most of you wouldn't have seen. Xavier, I think you were there when it was commented, but [inaudible] made a nice comment in the registry, and the contracted parties with the Board, with regard to what's happening on the planning for the reserve and

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different ideas, and it's still a work in progress and so forth, which I felt was helpful to know that that was going on.

UNKNOWN SPEAKER: And I want to add something to that as well. I think it's okay to have more expenses in certain years than income. It all depends on the strategic decisions. If this year is more important, for instance, to finance or to put some extra funds in the reserve funds, let's say, one shot 10 million, and then you reduce a little of spending that you have on the strategic projects.

And it's also a strategic decision. This year, we will go for break even, or this year we want to have five million in excess, or this year we will go for a deficit of five million.

XAVIER CALVEZ: Thank you for that comment. I think this is very helpful because it does not have to be clear-cut all of the time, and certainly, being able to put money inside, some years should allow you to also consider long-term investments, other years. I think the situation that we do find ourselves in there, that [inaudible] in favor of the approach of building, build in an excess on an annual basis, is the fact that we have a reserve fund that's very much depleted.

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So, as much as we can afford to say, well, you know, in excess year deficit, another and we manage it on the long-term strategically, I think makes complete sense. When you're on a... More or less, where you want to be in terms of reserves. Since we are so much depleted today, at least versus our expectation or target, we have to find a mechanism that allows us to at least not digger further, if you see what I'm saying.

And so, we've had a number of conversations with various organizations today on the target level of the reserved fund, and I don't know if you have seen that, but our reserve fund has a target of 12 months of operating expenses.

One year, basically. And in addition, our operating fund has a target of three months of operating expenses. So, between the two, it's actually 15 months of operating expenses that we're supposed to have. 12 months of operating expenses for the reserve fund wouldn't mean if you used the FY 17 budget as a reference, 132 million of reserves.

We're at 62 right now. So, we have a big gap. That's concerning. And this is why the Board, with the finance committee, and of course, with our help, is looking at, how do we fix that? And by the way, even if you put 5% away every year, over the next 10 years, we're going to put away something like six or seven

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million per year, which is therefore filling in the gap, but it's going to take us 10 years.

So, is that the solution? That's what we need to look at with the Board and with the community, of course. Knowing that they are also, you know, currently there is a number of funds that we are also managing from the new gTLD program, and that's not finished, and the auction proceeds as well.

CHUCK:

This is Chuck. Let me let you take a few bites and I'll just make a comment. Some of this discussion, I think we had this last year, but it's relevant here again. Is, and I know this hasn't been resolved. Right now, the Board has a policy of, or a goal, I don't know if it's a... It's probably not a policy, it's probably a goal of having one-year operating expenses in the reserve fund.

So, probably over the last couple years, there has been discussion about, is that the right amount? One of the things that I think... Paul is not with us now, but he may be back, I'm not sure. But one of the things that he pointed out last year in this process was that, the revenue sources for ICANN are pretty predictable, more so than in a lot of situations.

So, maybe a year's operating expenses isn't needed. I'm not suggesting one way or the other, but that's another thing to look

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at. How much of a reserve fund is needed, considering the factors that come into play for ICANN's revenue model. Now, of course, huge things can happen even under this model. So, I'm sure you want some cushion there.

And I don't think we've, that the Board finance committee, or the Board, or even the community, knows the right answer to that, or come up with what they think the answer should be, but that's part of the thing that as we look at the amount of the reserve fund, is there... Do they need a full year? You know?

I mean, right now that would be, what? Almost \$140 million. Would half a year be enough, or three-quarters? I'm not suggesting an answer, but I think that's one of the factors we'll have to talk about.

XAVIER CLAVEZ:

And just to compliment what you said. There is actually a policy, the investment policy of ICANN, contains the 12 months reference.

But nonetheless, it's part of the work that the Board has been doing, is to re-look at provider rationale for that policy, and reevaluate the target. Right.

Let's start over. Multi-year planning, that's where we left it off.

BECKY NASH:

Yes, if we go back one slide. Thank you. So, just to reiterate, for those that are here in the room, at the beginning of this session, we made a decision to move the agenda around in order to cover the FY 19 planning process. The last topic that we talked about before the break, amongst other things, was the multi-year operating plan and budgeting process.

On this slide here, we just have a couple of points about the detailed process, where additional consultations and a process for a review of an operating plan on a cross-functional basis, is something that we would like to insert into the timeline. And that would include a multi-year operating plan with documented activities and priorities phased by year.

And just to highlight that a multi-year budget that contains detailed expenses, and anticipated funding for more than one budgetary period, helps us have that longer term horizon, and most times a multi-year plan is typically for three to five years. So, this is one of the ideas with the new community powers and accountability measures that we're thinking about, will help and improve the planning process overall.

And we certainly look forward to some input from others in the community, as we move along in the planning process. Next slide please.



XAVIER CALVEZ:

While you're going to the next slide, just a quick comment that implementing a multi-year planning process is a very significant amount of work to do well. And of course, anything that we do from a planning standpoint at ICANN, we're not planning within a group of 10 people, we're planning with a group of 3,000, right? We need to organize an adequate input from the organization in the community, and the Board on that multi-year planning.

And on expanding our organizations on the operating plan. You want to comment on that and then the next slide? Because I think the next slide is going to get us into FY 19 a little bit more precisely.

BECKY NASH:

Yes. This slide is a view of the annual planning cycles, as it relates then to the five year strategic planning cycle. So just as a reminder, currently for the draft publication, we have the five year operating plan update, the strategic plan for five years, from fiscal year 16 through fiscal year 20, remains unchanged, but then we are approaching, after the FY 19 planning, we will be approaching the next cycle, four or five year strategic plan which will cover FY 21 through FY 25.

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And this slide just talks about the annual planning cycles, as it relates to the five year strategic planning cycle. And what we're noting for FY 19 is that in all cases, and as we will see in the next slide in a minute, that there is always overlap. That now with the process as it relates to the accountability mechanisms, and the addition of the IANA budget and PTI operations, that this will now typically be possibly a five quarter process.

And that's why we're highlighting overlap across these different planning cycles. So, if we go to the next slide please. This next slide is a draft, and again, this is all for discussion, of the FY 19 planning calendar. And as I just noted, we are starting that process, and anticipating having a significant amount of planning and consultation starting in Q4 of FY 17.

So, for those of us in finance, again, this is the reality, it will now overlap before the adoption. So, we're just highlighting the planning aspect of the timeline, and having community consultations about our process. We are anticipating starting that in April. And in addition, with the PTI operations planning process, that will also be a Q4 FY 17 exercise. This is a draft at this moment, because of the fact that we have a little bit of area where we have the ability to move things a little bit.

Just to let you know, what I've highlighted on this slide is the PTI operating plan and budget process, and the development of that

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does start before the end of the fiscal year. And the reason why, as denoted by a blue star there, is that one of the recommendations from the CWG, was that the PTI operating plan and budget be presented to the PTI Board nine months before the beginning of the fiscal year.

This timeline, again, could shift just a little bit to be right at the nine months, but this means that the PTI Board would review the operating plan and budget, prior to publication for public comment, which will be most likely in Q1 of FY 18.

XAVIER CLAVEZ:

Just to explain. The nine months means that it's nine months before July 1<sup>st</sup> here. So, the nine months is counted back from July 1<sup>st</sup> 2018, which is the beginning of fiscal year 19, and nine months back is bringing us to the end of September 2018 here. So, here we're suggesting it a month and a half earlier than the end of September.

Of course, this is not a precise process, but that's what we're showing up here. And as indicated, which means that the consultation phase that proceeds the development of the PTI budget, which is embedded in the bylaws by the law, it needs to cure basically starting in about a couple of weeks, over the next three months, so that then we can develop the budget, so that

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then we can submit it for public comment by the end of September. Yes, Chuck.

CHUCK: And just an observation. Last year, the time crunch in getting the PTI budget done and approved, was tighter. We know now, and we're way ahead, but we did it, and it worked. And I think that's good. So, in a more compressed timeframe, we're able to do it last year. So, that's a good sign.

XAVIER CLAVEZ: The part last year that we did less extensively, or I should say, no less structured fashion, is the interaction with the community consultation at the earlier part of the top left of this graph here, because what Elise did with her team is that they had a number of meetings where the RIRs and the IETF [inaudible], and during that time, those meetings that are already scheduled, they had interaction on the IANA and PTI budget, which are counted against, in quotes, a community consultation but it was in a structured fashion.

If you're a member, that was already three to six months before the transition was approved. So, we actually anticipated the implementation of the transition, so that effectively we can submit the PTI budget at the point. Chuck, on the 28<sup>th</sup> of

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September, actually. It was [inaudible], so right before the deadline, and before [inaudible] becoming effective.

CHUCK:

So, if I can jump back in. This is Chuck. Compliments to you guys on that, and to Elise and her team at PTI. But another advantage in the upcoming fiscal year, will be that we have, CFC would have been functioning for a year, or close, and the RZERC and so forth, so that hopefully out of that, will become things that PTI and the community be aware of, that maybe needed for that next fiscal year project.

XAVIER CALVEZ;

Absolutely. Just to point out that this interaction needs to happen in the next three months. So, the CFC is just ramping up really. And there are ramping up well. But now we need to have them engaged on the FY 19 budget. And certainly, I think we all need to realize that what we are seeing here is that planning for a year at ICANN takes 15 months.

That's what we're talking about. So, we could, and we will need to consider, the implications of that type of work, as Becky said. It means that to the planning of two fiscal years overlap. We could consider moving to a two year budget cycle. So, instead of budgeting for one year, we'll budget for two every time, or that

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we budget for three to five years ahead, and we update that on a rolling basis every year.

We need to think about it. We also need to understand the amount of resources and time of both the organization and the community that we involve with planning. I'm not saying it should be less, but I think we need to be conscious of those implications. So, right now, we are planning for a FY 19 planning calendar that starts basically early April and finishes at the end of June of the subsequent year.

One element that we have not necessarily reflected here that we would like to consider, and that we would like to at least attempt to build in the calendar, is that we don't approve the budget of ICANN in the days that proceeds the fiscal year to which it applies. So, what I mean by that is, if you look at the FY 17 budget, which applies to July 1<sup>st</sup> 2016, we approved it on the 30<sup>th</sup> of June 2016.

The day before. Not great. Right? So, and that's been a constant ICANN, is that the budget is approved at the ICANN meeting that proceeds the fiscal year to which it applies. And it's not just because we want that to happen particularly, it's simply because you see the process already has steps that are sequential into it, that already was making it take about nine to 12 months.

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Now, we're about 15 months. But the point is that there is a lot of work within that period of time to make it happen, community consultation, public comments, development periods, response period. A public comments takes a minimum of three to four months to be carried out. So, it takes a lot of time. But we would like to consider at least allowing one month between the approval by the Board, and the beginning of the fiscal year that it applies to, which would mean Board approval by the end of May.

That means pushing things up by one month in the process, or finding ways to squeeze the process by a month, which we can't see at this stage any way to do. So, we're intending to look at how we can advance the whole process by one month. We have been talking a little bit earlier about an operating plan, a phase, a discussion on the operating plan in more depth, in more breadth with both staff, community, and the Board.

So, that's an extra step that we need to consider in the process. And if we look at FY 19, in my views, it will have to happen in this timeframe here.

So, here we're mentioning the public comment on PTI. As you can see, operating plan and budget development is slated here basically in the first six months of the fiscal year. So, we will need to think and design quickly, or soon should I say, a

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development phase that includes looking first at the operating plan, interacting with the Board and the community on the operating plan during that period of time.

So that then, we can move towards budgeting for that operating plan in that period of time. And finalizing a draft operating plan and budget that will have already received input from the community on its operating plan, but finalizing a budget that then is submitted for public comment. Yes, Chuck.

CHUCK:

I maybe way off on this, but because the operating plan is kind of constant, with just revisions for a few years, I'm not sure we need as much time for that. Now, when we do a full revision of the operating plan, that may not be the case. And I welcome anybody to challenge me on that. This year, I did go through the operating plan, but I found that pretty easy to go through, and you guys did a good job of highlighting the challenges that were made in it, and I kind of mostly focused on that and looked at ones that needed more detail.

So, in years where it's not a totally new operating plan, you may be able to pick up some time there. But that's just my first observation by me, where I've been focusing my time is on the budget and operating plan, which has the detail that is really needed.



XAVIER CALVEZ:

I think this is a good point. Göran has been adamant in pointing out to, we need to talk about what we do, less about.... Well, it's not about less, it's not only about how much it costs, but first what we do, and then what we do is simply translating into dollars. But in relation to what we do, he also says which isn't completely true, of course, a lot of what we do is constant, is not changing every day, right?

And contractual compliance, we've done it for years. We're going to continue doing it. So, the planning and the operating plan, when we update it from A to Z, not everything changes. And sometimes the adjustments are minimal, sometimes there is no adjustments, sometimes there is changes.

So, is there a way for us to focus on the changes or the prioritization as part of the operating plan? Drawing from your idea that maybe that's a way to improve the efficiency of the process, in quotes, and save a little bit of time. At the same time, you may have heard during the interaction with the contracted parties and the Board, that [inaudible] was suggesting that maybe we should do a zero based budget all of the time, to allow for not assuming that things should happen the way they've been happening.

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And that we therefore challenge the expenses and the costs every year, so that we don't just carry them over by lack of looking at it. So, what [inaudible] doesn't seem to know is that we do a zero-based budget every year. That's what we do, actually. Because we ask everyone, the budget owners don't just go with, I had this last year, I'm going to add this and submit that to ICANN, that's not what happens.

We ask the budget owners to say so, what are the resources that you need to do what? How much travel? How much professional services from detailed by project by trip the travel by position? So, we do a zero based budget every year, but having said that, we need to challenge, nonetheless, the cost that we incur. Yes, Chuck.

CHUCK: Sounds like you have an action item. We need to get that message out there. That's really important.

XAVIER CALVEZ: I didn't try to interrupt the conversation that was happening then, but I was thinking exactly about that. I agree. We need to make that very explicit. Jameson.

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JAMESON: I also very much buy into that, that need to communicate that message. Zero based, but it is not, everybody knows that. And it's the best approach actually to an organization like ours, so any organization, I want to be quite comfortable.

XAVIER CALVEZ: Those of you who have participated in the budget process over the past year or previous years, other than what we've already mentioned relative to the PTI budget, the ICANN budget approval, are there things that come to mind in terms of improvements or changes to the process to the timing, to the structure of data that you think we should consider. Jameson.

JAMESON: Yes. Thank you for that. Actually, I was just thinking about it. Do you have an application? Are you using an application to [inaudible]?

BECKY NASH: Thank you for your question. I assume that you're referencing an application for budgeting, like a budgeting software? Okay, that's correct. I do understand your question. And yes, we do have a new budgeting software program, which is the planning cloud solution from Oracle. So, that is a reporting tool that permits us to bring us our historical actuals, so that we can

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review the trends by function, by project, in order to look at historical actuals for projects to then predict the future.

But that's only one element of our budgeting process, because as we were just discussing, although we have the need to define zero based budgeting, we also go out to each leader in the organization and ask them to prepare a budget and justify it from a zero based standpoint. So, all of the resource planning, will be done after reviewing historical actuals, we then go in and ask them to actually prepare a zero based budgeting.

I hope that answer your question.

CHUCK:

So, this is Chuck again. So, in answer to your question, Xavier, on the, you know, the process itself. I actually think it's working pretty well, but kind of tying in what I was talking about and what you were talking about with regard to the operating plan not changing too much, maybe it would be helpful to add a step, not a serial step, a parallel step, before you develop the operating plan, and let....

I don't know if it's possible to get them any of the information from that application, the Oracle application. It would be early in the year, so that's not great. But... And give the community...

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And by the way, this is the first time I thought of this. I haven't vetted it with anyone, so just talking out loud, really.

Ask the community if there are any expense areas that they think are under-sourced or maybe over-sourced. And not getting into too much detail, because that's kind of hard at that stage, if you can give them a little information from this application, that would be great. So that then, when you look for possible changes in the operating plan, not only going to staff, which you need to do, like you do already, you know. So we see, you know, and it has been common over the years.

I don't think you've got compliance staffed enough. So, maybe that. And then that can be considered. And maybe the request for upgraded for service can be met without increasing budget, but process or something. Anyway. Just something to think about. That will probably be well-received by the community.

And then they can, once you do put out the proposed changes in the operating plan, it would reflect those or not, and if not, a rationale given. Maybe of the need without increased costs, maybe it was through improved process or something like that. Anyway. Just throw that out. Not necessarily need to discuss it now, but you asked about process, and that shouldn't.... I don't think that would have to add anything to the overall timeline. It

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could be done in parallel with some of the stuff going on with PTI.

UNKNOWN SPEAKER: Yes, Xavier, just to follow-up to that. Increase automation, like the enterprise application talking about, and then even on the issue of [inaudible] that is concerned about, so linking the open data initiative [inaudible] together [inaudible] reduce [inaudible].

XAVIER CALVEZ: I think that makes sense to explore. I think that we have to realize that we are trying to discuss, and exchange on the operating plan in the timeframe that we're talking about, let's say July through October, we are the beginning of the current fiscal year then. So, we're going to have very little data on the current fiscal year.

Right now, what we do for the budget owners, when we ask them to plan, we're starting basically November through December. They have the actual data of the end of the first quarter of the fiscal year. Already many of them are telling us, I don't even have a lot of insights into this fiscal year asking me to plan for the next year.

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So, yes, but that's what we need to do and actually it's going to need to continue advancing even more. So, at some point, what I think what we're going to use is, we're going to use the actuals of the previous fiscal year. In this case, it would be given FY 17 that finishes. We're going to use the FY 18 approved budget, as the FY 18 reference, and we're going to start planning on FY 19.

Right? Using the FY 18 budget. So, the input from the community that I think I would want to start relying on, which then will militate in favor what I was saying earlier is, the public comment that was provided on the FY 18 budget. But if we manage to start planning multi-year, what I would love to offer to the community for public comment, is that three to five year budgeting plan.

Because then the community can be commenting on the next year on the following on the entire set of data. And then, we can use that input to build the next year's budget, which is starting to be built barely two and a half months, or two months after that public comment is finished. So, you see what I'm saying.

We're starting so close to the public comment period on the budget of the subsequent year, that maybe we can kill two birds with one stone, if you see what I'm saying.

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CHUCK: I still had my mic on, sorry. This is Chuck again. I think that that's, personally. I haven't tested this with any of my stakeholder group or anything, that's worth considering, as long as there is enough, we don't get so locked into the multi-year plan that we can't make significant changes if something new comes up, if something new is discovered, whatever.

As long as that flexibility is in there, which I would assume would be, if that makes the overall process work better, not only from your point of view and that's your point of view of your staff is very important, but also from the community's point of view. That might be able to be helpful to the community as well.

XAVIER CALVEZ: Philip, do you have any insights that you can share on how your organization plans on an annual or multi-year basis?

PHILIP: I'll be very honest. You're ahead of my organization. So, I think the whole thing process that's going on right now, is just going in the right direction.

XAVIER CALVEZ: The... Yeah, go ahead.



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UNKNOWN SPEAKER: Yes, Xavier. Just to [inaudible] or the case be made, really, there is a lot of substance in what we are doing, in the plan, because as business people can tell you, my people would be, there would be more confidence, you know, and yes. Seeing things ahead, so you know, and to show a lot of seriousness with the community and everything. So, it's good.

XAVIER CALVEZ: I want to emphasize, to echo what Laurie was saying a little bit earlier, is that as we get on a longer term basis to plan, it's not going to help simplifying the process for those who have less experience, or ease of access to the information. But I think that, nonetheless, we can do something about it.

Alexander, do you want to go?

ALEXANDER: Thank you. Alexander [inaudible], GAC Ukraine. For me, as a person with accounting and [inaudible] ground, so this system of planning, is very close to some ideal model that you're doing [inaudible] in the right way. But, according to the like financial accountant point of view, but for general management, how the fiscal planning operations and the process link, and the [inaudible] with strategic plan, or like an action plan, of the corporation in general. The first one.

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And so, this is like a schedule, a table. What about some analysis? And for a question on like previous data, and probably using some modeling, to understand the trends in the future, if ICANN will start some new gTLD process, and definitely this will affect the expenses on operations and expenses on engagement, the legal support, and also on the policy making.

So, definitely this will affect the budget. So, we should also see this. So there is your comment in some way. Thank you.

XAVIER CALVEZ:

Great, thank you. It is definitely... I think we're going in the right direction, but we're going to need to think through effectively of how we plan for the impacts of those various activities on a longer-term basis, and being able to model long-term, will it require a certain amount of sophistication in the planning process?

Today, we use the previous fiscal year, the current fiscal year for the few months that has actually happened already by the time we start planning. It's about three or four months. And we use on a department on department basis, we do a zero based budget, we compare it to the previous years, so we try to use the benefit of zero, you know, itemizing all of the elements of the budget individually.

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But also comparing that to trends of spend from the previous years. We're kind of doing both at the same time. And then, of course, the challenge is to be able to evaluate new activities, or priorities versus the change over time. So, it's a complex size and not an uncommon one. Of course, everyone goes through that in most companies.

But we need to... What we're more and more realizing with the input like the one Laurie shared earlier, is that we also need to make the process sufficiently simple that it could be understood by everyone, and that everyone can participate to it as well. That's a challenge that we have.

And the more complicated we're going to make it, the less participants we're going to have in that process, right? Because then... So, it's going against our... One of our objectives is to expand the participation, so you're here tonight, but others have been here for a while, and it takes an investment and time to be able to understand this planning process.

And Laurie was telling us earlier, that it's complicated, especially when you're not a finance person. Okay.

UNKNOWN SPEAKER: And what about like the definition of the fiscal operation plan to the strategic plan of the corporation in general? So, there is a

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strategy of the company, we're going to cybersecurity since more than the policy, and this should be also reflected in the financial plan, how this are related?

XAVIER CALVEZ:

So, just one precision. What we do today is that the operating plan, currently, is a set of 340 projects, that are each mapped to our five strategic objectives. I don't know if we have a slide that we can show them, but basically we have 340 projects that are each mapped to a portfolio. We have about 55 portfolio, each mapped to a goal. We have 16 goals, and each of the 16 goals mapped to one of the five strategic objectives.

And the five strategic objectives, in the 16 goals, constitute our strategic plan. So, at least we have legibility of what we do, and it's linked to the strategic plan, but then it also needs to be dynamic, which means that allows us to understand prioritization within that strategic plan, and constant relevance of each of the projects against that strategic plan. You have a comment.

UNKNOWN SPEAKER:

Yeah, I wanted to ask, I think it was a question I already raised a year or two years ago, this five year plan, is it going to be a rolling plan? Because then, of course, you get into a cycle where

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each time of new actual data, to update the five year rolling plan.

XAVIER CALVEZ:

So currently, it's not rolling. The first one, well, it's not the first one. But the last one was not rolling. But I think that as we get into multi-year planning, process, I think it's starts to make even more sense to go through a rolling plan, so that we plan once for five years, and then we just re-plan as the next year comes in, we add another year to the plan.

UNKNOWN SPEAKER:

You eliminate the complexity of having running year, an approval in the final stage of them coming here, and start of the budgeting process of the year after, because then you only have one cycle each time five years, where the focus is on the next coming year and the second year.

And if I might add, on the complexity of the budget, I think the budget in itself is not so complex for ICANN, and I think the process is under control as well. I think what brings complexity of course, is the transparency that you have to give to the community. That brings the complexity.

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CHUCK: Chuck again. One of the things that might be needed in this process, because we're looking further and further out, is maybe a little bit higher contingency fund. I don't know if the community would support that or not, but it might be necessary and helpful, so that we don't get...

And I say we, I mean, we don't get stuck, you know, because of this, of more advanced planning and so forth. I don't know that it would have to be hugely more, but it might help and provide a little more protection in there.

XAVIER CALVEZ: There is a very basic principle, and the less visibility you have, the more contingency you take, right? I mean, by definition. So, it's a very reasonable approach. There is a lot of design for us to do, but these thoughts are very helpful from all of you to, for us to try to design this multi-year planning.

We're going to need to find a solution that is both obviously feasible, practical, simple, and manageable without adding a lot of resources to the organization. So that we are able to bring along community, Board, and the organization into this planning process. Again, there is a lot of work to get there, but that was already very useful. Jameson, maybe you have a comment on that?

JAMESON:

Yeah. Two things, well I think, based on the zero budget process, I think also that [inaudible] could be predictable, more predictable in terms of standard, in fact [inaudible], people could raise... I have some concern that, since we have it, you know, in view, we have everything checked, based on justification, based on what is expected, [inaudible]. And we don't really...

Let's keep it with the standard 5% so to speak. Anyway, that's just my point of view. Then the other comment I want to make, since there is a lot of call for there to be one pager, high level stuff, perhaps we could just have executive summary on the budget. Like you have a summary of change, of changes, that could come later. But executive summary, you know, that we just say, oh, we are proposing 146.8 million proposed this year, expenses.

It come from registry, it come from registrar, it comes from this high level, and that would be, so that would be what some people, Laurie would look at, okay.

XAVIER CALVEZ:

Okay. Thank you. We've been talking about that with a team to try to produce a very summary package about the budget, five

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slide type of approach for those who just want to know very quickly a little bit about it. So, we're going to try to... We have materials that we can use to do that. Yeah, thank you.

[SPEAKER OFF MICROPHONE]

Yes. We can do a one page thing.

[SPEAKER OFF MICROPHONE]

Thank you for that. Yes. So, we're going to move into what we've called community engagement, and it is a lot about how to improve, expand, alter, effect, and try to find the best ways or the better ways to allow a better engagement with the community.

Remember what we looked at earlier about the community powers that now require even more, so then before the engagement before the community into those areas that are the subject of the powers. So, how do we enable in support, we as staff, enable and support the community engagement so that it is adjusted to the needs, expanded to what it needs to be. Jessica, do you want to go over that quickly? And start the conversation.



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JESSICA:

Sure. So, we've actually kind of touched on some of these things in our conversations as of this moment, so chime in at any time, but what basically we're trying to achieve is a more diverse base of constituents. They'll have more knowledge, more input, more advice and suggestions, and be more involved in the planning process.

We'd also like to increase engagement with the Next Generation of ICANN community members, so that they will also be able to provide their expertise and experiences to the planning process, planning and budget process as well. With that said, we know that are some challenges, we know that community faces fatigue over the planning and budget process.

It's a long process. It's drawn out. There is a lot of steps involved. There are also stretched resources, so determining how we can maximize those resources. And there is also a large learning curve for new participants, as we also talked about, and a lack of understanding for why participation in the budget and planning process is important.

So, what we want to do is determine how we can improve this community engagement, and expand it. So, some of the areas that we've looked at for discussion now is the frequency of engaging. Do we want more? Do we want less? In terms of how often we do it, forums? Do we want face to face like now at this

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ICANN meeting? Do we want webinars, as we do during some of our kick off sessions for the planning process and input, get input that way?

Or, use a website to provide your information and feedback? Timing of it. Do we want to have these recurring meetings, or do we want them to be ad-hoc when you, as a community members, have questions or need input? And then content. We've talked a lot about this already, but do we want more? Do we want less detail?

Do we want high level? Do we want really like granular information? And then obviously, as someone here said, do we want...? How do we want to do our marketing strategy to improve that? Do we want it to be focused, or do we want people with very, you know, high level of financial understanding?

Or do we want a lot of members of the community to participate, whether or not they have high level of financial understanding? So, I'll pose those questions to you. Let's start with, how can we improve community engagement in terms of content frequency?

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UNKNOWN SPEAKER: I'm sorry. I might not be a quite [inaudible] know well about the budget process, I'm just like [inaudible]. But, I do understand your previous comment about [inaudible] projects. I spent 10 years in a budget committee of Ukrainian parliament. So, I do know what you're talking about. So, it's a very complicated situation.

But when the CEO, the president of a corporation and country, like him, shifting places, and we have a new president, and it affects the strategy of the company and it does effect this, 90% of this 300 budget programs. Though, I just want to be sure that community will be engaged in discussion of this change, because I know that the changes of the vision, affected some programs already, even on the [inaudible] learning engagement, some Latin American countries, for example.

I don't know this. So, we could be engaged in discussing the improvement of efficiency, the new projects, by setting up some cross community working group for example, [inaudible] with the budget. So, we [inaudible] collect people with financial background from GAC, from GNSO, ccNSO, from ALAC.

And help the management team to make it more transparent, accountable, and efficient. And what is the tools of engagement? Thank you.

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XAVIER CALVEZ:

Thank you. I think this is... There is a good point here that we need to think about narrower processes for, well, let me rephrase. But processes that look at topics, basically, or projects, or initiatives. Basically a subset of our activity on which we can consult a cross community population of community members, and obtain a consensus maybe on a position, and then use that as the basis for planning.

I definitely think it's a very good input. We need to think about how we structure that type of interaction into the planning process, but it makes a lot of sense to consider.

UNKNOWN SPEAKER:

Just like a call back. I learned like a budget and budget discussion process, [inaudible] in the different countries. So, definitely we need budget hearings, maybe we can start with a like a hearings on expenditures or on the programs, where the people from different constituencies can come, and comment, discuss some strategic, like a basic operation program.

So, we probably shouldn't discuss like DNS servers, this is a constant. This is not to worry about the budget. But definitely, we should discuss the changes in strategy and priority, and we need to find the people with economic background in different communities of the ICANN, and probably, I don't know, like a

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cross community working group or like expert group on a budget, we should have this.

So, what this... What is the status of this meeting? So, it's like a hearing...

XAVIER CALVEZ:

So, you can argue this, where we are now is a cross community working group, if you think about it. But it's very unstructured, right? It's doesn't have an established membership, and anyone who wants, shows up. So, we could have a very different approach with a much more structured approach to cross community interaction and working groups.

That's definitely something we should consider, especially if we can also combine it with a functional, or a topic approach. I'll tell you, one of the things that we need to be also careful with, is that we, as ICANN staff, but also for the community, we need to be very careful with entitlements and capture, in quotes, in the sense that if we have an established working group with members on a given topic, then there is a risk that it's the views of members only, that the working group provides, in that therefore the representative of the participants of the working group needs to be one that ensures that it is cross community and not just a few individuals.

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Right? And that's something that needs to be carefully planned, but it does not mean that [inaudible]. Please, go ahead.

UNKNOWN SPEAKER: Sorry, thank you Xavier. Number one, I agree with the point you just made, very much. It has been my experience over time that if you're not careful about representation, it's easy to have an issue presented as though it's cross community consensus when it's really not. Yeah. So, I agree with that. Thank you for bringing that up.

Just two pieces of feedback on what Jessica was just talking about. First of all, in terms of content, more or less detailed, I appreciate detailed. And you know, I think registries, I don't want to speak for all contracted parties, but I know that we appreciate more detail, and we'll figure out what to filter out ourselves. It's easier just to have it, and then figure out what to keep and what not to worry about, rather than have to go back and ask for additional detail. So, that's my feedback on that.

The other issue is on, when you say marketing recruitment strategy, talking about how to get more people in the room like this. Right?

XAVIER CALVEZ: More wine.

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UNKNOWN SPEAKER: Food and wine. Food is always going to help. I just have one thought, and you can do with it as you please, my thought is a recommendation would be, when you're talking about budgetary matters, it's helpful to know, it's helpful to answer the so what happens question.

You know, we're presenting this budget and we have money allocated in this manner, so that we reach this community objective. And we have a travel budget allocated in this way, so that you know, these participants who are disadvantage have an opportunity to be heard.

Or whatever the case may be, if it always maps up to what ICANN's or the community's objectives are, then I think the community is going to be a lot more receptive about understanding what the budget really is, and they're less likely to pick it apart and go, I don't like you funding ALAC to go...

Or, whatever the pet issue might be. So, I find that context to be very helpful, maybe others would as well.

XAVIER CALVEZ: Thank you. I think that's very valuable input, making people understand what is the objective of what we do obviously should help rationalizing, as well as providing input. It's

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sometimes easier to provide input on the purpose than on the how, basically.

One question for you, more detail than less. When you look at the structure of the most detailed level of data that we today offer, which is that 300 projects basically, 340, we provide for those, for each project the head count located to it. And then in total personal costs, travel costs, professional services in an administrative cost. I realize one of the things that we need to explain is, what are those in each of those categories.

Some are more obvious than others. So, what information is not provided with that level of detail that you think would be useful?

UNKNOWN SPEAKER:

Very smart question, and one that I appreciate, and one that I don't have the answer for you yet. So, Chuck and I were just talking about this. He was saying, he's been around the budget process far longer than I have, but he was saying, you know, that the budget now... I don't want to speak for you Chuck, but I think what you told me was the budget now generally, in terms of detail, is better than it has been before.

I'd like an opportunity to look over it myself. I don't have a full answer for you. So, I'm going to have to leave, so if I can get a



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few last comments in. I'm going to say you need more detail and you need less. Does that make sense?

Some people, like you said, will be able to handle the more detail and need it. You've heard me say that for years, and you started giving it, thank you. But it has got to be presented in a way that those that can't handle the detail, or don't understand it, can get enough information that they can still participate in the process, because you lose a lot of people if you give them all, all of the detail.

But if it's structured in such a way and presented in such a way, that they can kind of get as much as they can handle, you have better chances of having bigger participation. So, you get some people that won't be able to get into that scale, but they can still participate, okay?

So, it's how it's presented. Now, I want to say, face to face, we all like face to face, but let's just look at what's here right now. Let's be realistic, okay? It's very hard. And at ICANN meetings, there are so many conflicts, it's going to always be this way.

So, it's nice if we can squeeze one in once in a while, but you know, I think, there are some things that could be done through distance learning. The process, we don't need to be face to face to learn the process, now it's incumbent upon us participants to do the preparation, but you can do it on your own time.

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You don't have to worry about getting everybody's schedules coordinated. As much as possible, that can be done that way, provide some flexibility, and when you do webinars, you... That's probably still useful, but do them at different times so people can do different times and so forth.

So anyway, the... That's probably good for now. You're asking the right questions, and that's kind of my feedback, like what Mason said, but I say less, so that you're depending on the audience.

XAVIER CALVEZ:

So, over the past five years, there is certainly something that I learned with your help in those, the other ones who participated is that, it's not about targeting from level of detail. It's about having a range that fits everyone. And I think it's very well understood.

Right now, as you know, we have worked on a basis of that structure that we have now. It has been working out, but as Mason has been saying, sometimes you want more detail and sometimes, and you've said that Chuck, and you've said the largest project, maybe we want more details. We've drilled down a bit.

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But we haven't changed the base level of those 300 or so 50 projects, going to the next level of detail for us is going to be extremely challenging, because it's actionable, meaning invoice by invoice type of. Nobody claims at that level. Now, maybe it's not necessarily more details, but maybe it's more information about a given project, that's not just the next level of transaction, but maybe it needs a bit more context, a bit more how are you going to do that project with what type of resources, what type of planning, what type of...

So, I think that we need to explore the more, more does not necessarily mean another level in the granularity, but in maybe more context, explanation, description, purpose, as Mason was talking about. So, thank you for that. And the less is what Laurie was saying earlier, is what's the one sheet document that gives you the entire budget, if you have two minutes to spend?

UNKNOWN SPEAKER: One last thought, and then I've got to go to my next obligation. Okay. Is to the extent that you can provide resources, that leaders within a group can take back and help get other people involved, maybe that will be Mason. And...

XAVIER CALVEZ: The trainer approach.

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UNKNOWN SPEAKER: But give them help to give them stuff, so that we couldn't get that person to the meeting but... [CROSSTALK]

XAVIER CALVEZ: No, no, thank you. Philip and then Alexander.

PHILIP: [Inaudible] What I wanted to say if looking back four or five years from now, if you see the process and the details that are available in the ccNSO [inaudible] working group, for instance, we have come a long way, and that's why I'm not worried about the changes that will be taken place in the budgeting process, because I'm assuming that ICANN will not redress and go back, so it will only get better and better.

And we have improved, so credit to you and the team. The only question I have about what you are proposing now, are we still supposed to discuss the process and improvements in the process? Or, can we also tackle strategic objectives, and I think that I join my neighbor on the other side there, because of course, strategic decisions have an impact on the numbers in the end, despite the process.

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And that's something, I think, where the community as well wants to give its feedback.

XAVIER CALVEZ:

Thank you. And I think that our current process of looking at the strategic plan once every years, is making it a little bit difficult to be able to be involved in that strategic development of the plan. And if we would be able to have a rolling process, strategic plan, then we can every year, and we have more [inaudible], we have more depth, we have more knowledge from the previous year, then five years ago because maybe no one was there five years ago.

So, now I think that makes a lot of sense. I don't know if you've got a chance to look at the five year operating plan, in the... So, the five year operating plan contains objectives, goals, and portfolios, and it stops there. We don't have the projects, but we have the portfolios with deliverables for each of the five year other plan.

That's an intermediate level of depth and that's certainly one that will be helpful also to receive input from the community on, and also in terms of whether it's adequate for that strategic, or at least, how are the activities of ICANN supporting well the strategy of the organization, because that's the determinate level of detail.

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I would like your input on that when you have a chance. Alexander and then Jameson.

ALEXANDER:

Yeah, so as I see that we are coming to the end of our meeting, so [inaudible] like two proposals and suggestions about the engagement community in informing it about the budget process. There is [inaudible] probably financial department could conduct some short course with a very simple infographic for a person without financial education, to understand like established a project.

It would be awesome for Fellowship program, for NextGen, for the whole constituency, for newcomers. You should speak to newcomers with a very simple, maybe not one sheet like it, like a balance with equities and liabilities. But you should do something. As you know, there is nothing about budget.

The second thing issue, as we all hear, there is also a way of communication and discussion, the mailing list. Let's start it. Let's collect our data and setup the mailing list here. And we, it is not like a working group, it should be probably like a cross community advisory group on the budget, when everybody can, each community member can contribute on a volunteer basis, its comments and expertise.

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I actually can participate [inaudible] time here, if the community will request my expertise. So, thank you. So, the mailing list and like advisory group on the budget, if no one is object, we can setup. We can start with this. So, it could be like institution maybe advisory to you, or advisory group to you, or to CEO, but this is a way of engagement.

We can forum space on web, and also on the mailing list. It's how the things were done. Let's start it.

XAVIER CALVEZ:

Thank you very much, very good suggestions. We have an email list that we use today, but we don't necessarily use for discussion purposes. We use it for announcing a webinar and financing a publication, but not for substantive discussions, and it's not a difficult thing to do.

Last input from Jameson, please and then we're going to have to close.

JAMESON:

Yes, just to quickly say that yes, that mailing list has been serving good purpose, so if there is any other group that needs to be included, you just be included. It has been working pretty well. Then well, there is something you are doing which is good, you

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know. You walk up to a constituency, I need to have a particular period, and so excellent. It's very excellent.

So, that's positively [inaudible] proactivity, you see? We know [inaudible] we are going to say, let me come, no. Yes. So, [inaudible] very good feedback, you know, from [inaudible] in particular. Well, there is a discussion too, that in the CSG, we could have a working group, a budget group.

So, from the intercessional, we started something. So, we, I hope we move forward with it. In [inaudible] we have a budget committee from [inaudible] budget committee, so part of the recommendation at intercessional is that every constituency you have a budget committee. Let's start at the beginning at home.

So, if it's not at the concession level, at least at the CSG, you know, level. So you have that.

XAVIER CALVEZ:

And we can help with that, and we would like to help you with that, because we have tools and we can think about how we will help sustain that, and create raise interest in the members, so thank you for that.



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JAMESON: Then also, [inaudible] co-interest executive, so we are [inaudible] now, would be FY 13 budget, FY 14 budget, FY 15 budget, just a little graph that shows how it goes, how expenditure has stabilized. That will interest [inaudible] as well. You know, create interest, oh wow, this good, you know?

XAVIER CALVEZ: That's part of the marketing as well. I want to thank you all for having stayed this late and participating in this actively. And so the advantage of a small group is that it's active participation. So, it's a good lesson for us to retain. Thank you very much for your ideas and input. There is a lot that we've gathered, and we'll digest all that and try to come up with proposals and suggestions and keep the ball rolling, but we have a few good areas of progress in front of us.

So, thank you very much for that. Thank you.

UNKNOWN SPEAKER: Thank you very much, and we're going to close the Adobe room at this time. Thank you.

XAVIER CALVEZ: Thank you very much for everyone online.

**[END OF TRANSCRIPTION]**