
COPENHAGEN – ccNSO Strategic Operational Planning Working Group
Sunday, March 12, 2017 – 15:15 to 16:45 CET
ICANN58 | Copenhagen, Denmark

GIOVANNI SEPPIA: And we are ready to start. No? Yes? Okay, eventually. Good afternoon, everybody and thank you for coming to this ccNSO Strategic Operational Planning Working Group (SOP) here in Copenhagen at ICANN15 – ICANN58, sorry. I wish it was 15. More ICANNs.

We have shared an agenda in the past weeks. And it starts with a presentation by Xavier and his team on the recently posted draft budget in operating plan fiscal year ‘18 and update on the five-year plan.

So that is going to end with appendix about the new framework under the Empowered Community and the changes that have been enforced in the ICANN Bylaws as of last October.

So those are the two main points for today’s agenda. Is there anything else we should add to the agenda or is the agenda as you have received and it is partially shown on the screen approved?

The last point is about are we going to work together to produce the comments to the fiscal year ‘18 operating plan and budget.

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

So that's the last point of the agenda. If anybody would like to add anything, speak up. Now or never. Okay. Never.

So, the agenda is approved. And I would like to leave the floor to Xavier. And before doing that, I'd like to thank again Xavier and his team for the availability to introduce to us the, again, recently posted operating plan and budget for the fiscal year '18. And also, thank you to Bart and Kim and Joke, for all the support from the ccNSO Secretariat. So, Xavier, the floor is yours.

XAVIER CALVEZ:

Thank you, Giovanni. Thank you for the invitation. We must admit we now count on it every time. But thank you, nonetheless, for the invitation and for the time that you dedicate to allowing us to share information with you and receive your input.

So, we're going to go over a fairly substantive presentation of the budget in operating plan that is currently under public comments since March 8th and until the 28th of April. And, of course, we look forward to either helping you be able to go through this document and receiving your comments and we'll talk about a couple of steps there that we will offer to make sure that you have an opportunity to discuss comments as needed as we have done last year.

With that, can I have the next slide, please? Can you find the slide master? Here we go. I can be the slide master. So, I'll quickly intro into it so that we –

That's the team. We have four members of the team here with Becky, Jessica, Taryn are here and Kirsten and Leo are back in Los Angeles. But that's the core team that organizes the work of the organization for planning and budgeting and knowing that, of course, there is all the budget owners represented by the department managers who produced their departmental budget. Then we aggregate all that together in this team that organizes the planning.

With that, I will ask Taryn to start with a quick overview of the timeline.

TARYN PRESLEY: Thank you, Xavier.

XAVIER CALVEZ: And you can just ask me, too.

TARYN PRESLEY: Taryn Presley, Senior Manager of Financial Planning and Analysis. I'm going to go over – next slide please – the planning

process and our timeline and give update on our current status. So as most of you know, we begin the planning very early on in the fiscal year. For FY18, we began back in September when we published the process and the timeline to the community.

Then we moved into November where we had an interaction with the community at ICANN57 where we had our normal Budget Working Group, where we went over assumptions for our funding as well as our expenses. Then we began planning the operating plan and budget. We began the development of it. And so, for the past several months, we've been developing that plan and budget and we have published it on March 8th as Xavier said.

So, we are currently under public comment. And it's a 52-day public comment period. And it's going to run from March 8th through April 28th. And after that, we will publish the report of public comments on May 25th. And then we will make any revisions to the budget necessary that came out of the public comment process. And we will take it to the Board which will hopefully adopt in June at ICANN59.

During the public comment period, we are going to be asking the community if they have any clarifying questions of us. It's just a process we have put in place whereby the community, if they read the document and they don't quite understand what something means, what an activity is, what the funding is

comprised of, then they can ask those types of questions of us and we can respond prior to the public comment period closing so that that information can be incorporated into the comments and the community can give us the most substantive comments possible.

So, we are asking that after reviewing the documents, if you do have questions regarding clarification that you submit them to us by March 19th at controller@icann.org.

And then also we are working with the community, again, to have calls on the public comments. This is something that we started a couple of years ago where the staff wanted to be able to get clarity on the comments that were submitted so that we can provide the most relevant response as possible. So, if you would like to set up a call with staff to go over your comments, we're asking that you please let us know by March 31st and we can help schedule that. And that again, you would do that through controller@icann.org. Next slide, please.

Next, I'm going to go into the five-year operating plan update and the types of changes that we've made for FY18. So, as always, the five-year operating plan is informed by our strategic plan. And the objectives and goals that have been defined there remain unchanged. We update our portfolios to reflect the work

that will be completed through FY17 and the work that will be started in FY18. And that includes moving work –

OPERATOR: There are only one people in this conference. This call will be disconnected unless you –

TARYN PRESLEY: Uh-oh. Should I keep going?

So, we have done a bit of restructuring of portfolios on how they align with our goals and objectives. So, you will see those updates in the five-year operating plan update. We've also updated KPIs to reflect any refinement and measurements based on better understanding of success.

We've also looked at dependencies and updated them to reflect any completed work and any events that have happened or any situations that have resulted in changes to our dependencies. We also have updated the phasing of our portfolios and all the work within our portfolios based on progress that we plan to achieve through the end of FY17.

I'd also like to highlight three high profile updates that are in the five-year operating plan update. The first one is that the five-year operating plan now includes PTI as a result of the work

from the IANA Stewardship Transition. The second point is that we have assumed no IANA Stewardship Transition work in FY18. And the third is that the reviews that were incorporated into the new Bylaws that are now called Specific Reviews are also updated in the five-year operating plan update.

And with that, I will hand it over to Becky to talk about the budget. Next slide, please.

BECKY NASH:

Thank you, Taryn. This is Becky Nash. In this next section, we're going to talk about the FY18 operating plan and budget. And, again, this is the document that now has been published on our website as of the 8th of March.

This first slide is just an overview of how we organize the ICANN.org financial reporting structure. We just like to highlight that on the left-hand side is what we call ICANN Operations where we have funding and baseline expenses and multi-year project expenses.

We'd like to highlight that new this year. We do have the red inserted box both for funding and for expenses which represents the new entity PTI along with the IANA budget, both for funding and for expenses.

At the bottom of that left-hand side, you can see that from funds under management aspect, that all relates to the ICANN operating fund for ICANN operations.

To the right, in the middle, we do have a box listed as initiatives. However, we do not have any initiatives included in the FY18 operating plan or budget that will be funded from the Reserve Fund. So, again, there are no initiatives that will be funded from the Reserve Fund.

On the right-hand side, we just like to highlight that we do have New gTLD Program. And there are slides where we are presenting financials for the FY18 budget related to the New gTLD Program with the application fees that were collected. That is the new G funds. And we have funding and expenses for FY18. And then to the right of that, you can see that we have the fund related to the auction proceeds where those are the proceeds that were collected. No operating expenses assumed there.

And on the very far hand right is what we call total ICANN. So, this slide just helps everyone see how we organized the different financial schedules in the FY18 budget. Next slide, please.

I'd like to go into highlights of the FY18 ICANN operations operating plan and budget. So, the first thing to note is that FY18

operating plan is year three of an update to the five-year operating plan. No major changes to baseline operations that are incorporated for this year and FY18. And as Taryn noted, the IANA functions are incorporated into what we call PTI/IANA budget.

The next highlight is that the FY18 ICANN operations budget is balanced. What that means is that we have funding or our sources of revenue of \$142.8 million and we have baseline expenses of \$142.8 which arrives at a balanced budget. Again, we'd like to highlight that there are no initiatives funded from the Reserve Fund for the FY18 budget.

The third point here is that funding increases at a slower rate. So, for this year, as we can see the FY18 best estimate for funding at \$142.8 million is 5% above the projected FY17 forecast of \$134.9 million.

What this is, is a slowdown in the actual increase year over year in funding. And this is consistent with what we're seeing now that the number of new TLDs that are in operations have reached its peak meaning that after the New gTLD Program, we now are close to having almost all of those TLDs in operations and that we're seeing the funding overall, increasing but at a slower rate.

Point number four is that ICANN operations baseline expenses excluding the contingency increases at about 5% over the FY17 forecast excluding contingency. And this is mainly driven by personnel expenses. Slide, please. Thank you.

So, slide number 13, this is just a high level comparing the two data points that we talked about on the highlight slide, again, highlighting that the draft FY18 budget is balanced.

XAVIER CALVEZ:

Quick comment. The FY17 budget was also balanced at expenses equal funding at the \$132.4 million. But we are expecting a little bit lower expenses and funding is a little bit higher than we are planning which is why we showed the variances that appear there. It looks like funding is increasing slower or less than expenses. It's effectively an optical effect based on the fact the forecast is a little bit different than the original plan.

BECKY NASH:

Okay. This next slide is an overview of the funding. So, the FY18 budget includes funding of \$142.8 million which is the best estimate scenario. And as you can see, we have listed here the percentage of revenue or funding coming from registries at the top of the chart. Where on the left-hand slide, we have 40% of

the funding based on the registry transaction fees. And on the right-hand side, we have the registry fixed fees that are driven by the number of contracted parties at 22% or \$30.8 million

And at the bottom of the slide, the funding components related to the registrars. We have the transaction fees, again, driven by the domain name registrations of \$36.9 million at 26%. That was registrars and registrars' accreditation annual fees and application fees, 10% at \$14.1 million. Other funding including contributions, sponsorship-related funding is estimated at \$3.7 million or 2% of the budget.

On the right-hand side, we do present in the document assumptions related to a low scenario. The budget itself incorporates the best estimate scenario. And then we do include a high scenario as well. And the difference there is related to assumptions based on the legacy TLD historical growth rates and along with the rate of increase for the new gTLD TLDs.

And again, ICANN always adopts the most conservative funding estimates. And the best case scenario does have moderate growth rates based on historical trend for the legacies and moderate growth rates for the new gTLD.

XAVIER CALVEZ:

A couple of comments. In the public document, there's more detailed breakdown of the funding and the assumptions that are underlying to the funding for the three scenarios, the low, best, and high. So, you can look more in detail at those assumptions.

I wanted to draw your attention to the top right corner of that graph which says \$30.8 million for the registries' fixed fees. So that number corresponds to the \$25,000 per registry that each new top-level domain under their current registry agreement pays to ICANN as a fee.

Thirty million. It's very simple. It's \$1200 or so registries in the root. Times \$25,000 is \$30 million. That number was 03 and a half years ago and will not grow further because we're kept at the \$1200 that have been applied for and that are being delegated. There's maybe another 30 or so that are left out of the current round of the New gTLD Program. So, it will not go further until there is another wave is there of a new gTLD.

So that's why, of course, the funding the new growth that we've talked about a little bit earlier is slowing down because there is a significant fraction of our revenue that arrived that at its "cap".

So basically, you have 25%, a little bit more, 30% of the funding of ICANN that is fixed and will not evolve at least in the current number of TLDs. And the 66% or so that are on the left in blue

that are transaction based then evolve with the number of registrations on the DNS.

We are assuming about 2% growth for the legacy, the .com, .net and so on, 2.3%. And we're assuming 30% growth for the new gTLD registries which is vastly under the market consensus on the growth of new gTLDs which is more in the 65% but we want it to be conservative.

The high scenario that is there assumes 60% of growth for new gTLDs. So that would be the impact on our funding if the new gTLD would grow in terms of volume of registrations at 60%. But again, we have retained 30% growth. Yes, please.

GIOVANNI SEPPIA:

Hi, Xavier. Thank you. Can I just ask about this new gTLD's growth? If those are the estimates of the revenue coming from transactions fees from new gTLDs, so this growth between 30% and 65% is based on the fact that independently from what a new gTLD charges for a new creation, ICANN receives a percentage.

XAVIER CALVEZ:

It's not independently. The registrar will charge \$10 for a domain name. Out of that \$10, there's \$0.25 that come to us.

GIOVANNI SEPPIA: Yes. But even if the domain name is for free, you got \$0.25. Correct? Okay. So that was I wanted to say because there are some new gTLDs that current are giving the domain names bundled or for free. So independently from that, you get the \$0.25.

XAVIER CALVEZ: Correct.

GIOVANNI SEPPIA: Okay.

XAVIER CALVEZ: The funding of ICANN is not dependent upon the pricing on the market.

BECKY NASH: Okay. Next slide. This slide is related to the funding risks and opportunities. Quickly, we just wanted to highlight that ICANN has conservative funding assumptions. And the continued engagement with the community, we have general acceptance of the reasonableness of these assumptions for funding. And the

risks and opportunities just highlight the probability quantified for the low and the high case.

So, the next slide, we're going to move into expense overview. Here, we'd like to highlight again that the annual expense based on this slide is baseline cash ICANN operations expenses plus the IANA budget expenses. Again, just highlighting the number one that the baseline cash expenses are fully balanced and equal, the annual funding that we've presented.

Our baseline expense growth is slowing down. This gives a picture of the year over year growth where for the FY18 budget we have a 5% expense increase. There's been a slowdown in the head count growth in FY18. This graph gives a picture from June 2015 through to June 2018 and quantifies the year over year added positions where we can see for FY17, there was a 13% increase over the prior fiscal year. And for FY18, we are assuming a 6% increase over FY17. We have further slides coming down in a few seconds just about headcount.

The final point here is that the FY18 budget assumes that the IANA Stewardship Transition will be fully concluded in FY17 including any expense related to Work Stream 2. And that as a result, there are no expenses related to the IANA transition in the FY18 published budget. Next slide, please.

This next slide gives an overview of the variances related to the expenses from FY17 baseline to the presented draft FY18 budget. As we can see on this variance slide, the personnel expenses on the left-hand side, we have two reconciling expenses related to the growth year over year. One is the impact of the FY17 hires in compensation increase which is the 5.1 million.

I just like to highlight that in addition to the impact of growth in headcount which we would have the full year impact in FY18, we also have transfers from the New gTLD Program due to the fact that that program will be coming to an end and they've transferred back into the ICANN operations.

The next area is related to the FY18 planned new hires. As we had seen on the page before, we had new hires estimated for FY18. And this gives the full year impact in the FY18 budget. The other areas are just related to increased engagement with the ICANN technical community where we do have a \$.8 million increase.

And then we have decreases in areas related to projects specifically our capital expenditures, as outlined in the next slides, are lower in FY18 as it compares to FY17. And that's related to the fact that there are several large ongoing initiatives that are being completed during FY17 and will not have expenses included in FY18.

Another area of lower expense just relates to the expense for FY17 where there's office space that was acquired and built out. And that is not being repeated in FY18. That was a one-time expense in FY17 that will not be repeated. And then the final area is just other types of expenses that net to an increase of \$.6 million. Next slide, please.

This slide gives an overview of the ICANN operations, FY18 budgeted headcount by executive group. On the left, it's the FY18 budget with end of period headcount or the end of the year headcount along with average headcount as compared to the FY17 forecast, again, the same comparative data, end of year or average by executive group or function.

As you can see, we have an end of year variance headcount of 16 and an average headcount throughout the year variance in the far right-hand of 55.6.

XAVIER CALVEZ:

And you can see here, if I can point to the right place anymore, this increase is actually the transfer back into operations of the headcount that wasn't through the New gTLD Program offered support.

So, during the past four or five years, we've had a group that was dedicated to the application processing. And that group, of

course, has grown a lot with tamps when there was a lot of volume of work has decreased in the number of tamps when that volume started to go lower. But there was a core team of staff members that was also doing a bit of work for other areas than the program but was accounted for for us under the program.

As their work is now shifting towards support to the contracted parties, we've now brought them back into operations. Though, of course, the program continues to be supported by that team but it had crossed the threshold if you see what I'm saying. So, we brought that team back into the operations. And now, we allocate a fraction of their time to the program for the effort that it continues to be provided. So that's the 11 of increase that you see there. So, it's a net increase for operations but it's not a net increase for ICANN as a whole.

BECKY NASH:

So, the next slide, please. This represents the risks and opportunities as it relates to the baseline cash expenses. These are risks and opportunities that are outlined in the public document that's been published. I just will highlight very quickly that the first item there relates to the possibility or probability of carrying out unfunded potential FY18 activities.

We will see in the next couple of slides that we've included an area of activities that were contemplated but not included in the budget. And we are calling them Unfunded Potential FY18 Activities

So, for now, if we could just go to the next slide. This next slide relates to the PTI and IANA budget. We just would like to highlight that the PTI FY18 operating plan and budget for PTI operations was adopted by the PTI Board at the end of January.

The PTI operations budget then is provided to ICANN as input for the overall ICANN IANA budget. And for that reason, it is included in the publication and is subject to the public comment period. Next slide, please.

This next slide provides a multi-year forecast of the New gTLD Program. This is a consistent format with what we have produced in the past. Just highlighting the current FY18 amounts that are circled there in red, those are the amounts then of the multi-year forecast that are included in the total ICANN FY18 operating plan and budget.

If we go to the next slide, we will see that these amounts then are presented here. So, this is the financial overview which we do include in the publication. And just to highlight that on the left-hand side, we have the FY18 budget for total ICANN ops that

is balanced with the funding of \$142.8 million and expenses balanced at \$142.8.

As you can see, the New gTLD Program has the FY18 funding and baseline expenses. And this then results in what we call total ICANN or ICANN org where we can see that the total funding is \$162.3 as compared to baseline expenses of the \$153.7.

This is compared to an FY17 forecast where we can see that the total funding for the year of FY17 including the New gTLD Program is showing much higher than expenses. And we would just like to highlight that that includes the one-time auction proceeds listed here in the new gTLD segment. So, for the year of FY17, there was auction proceeds collected. And that's resulting in a net asset increase there.

XAVIER CALVEZ: There's \$135 million of auction proceeds for .web and .webs.

BECKY NASH: So, this is the total ICANN financial overview. If we go to the next slide, this is also for total ICANN where we have the cash flows for the FY18 budget. And we would just like to highlight that we have listed the cash flows here by funds under management. So, we have the operating fund which would be ICANN baseline and

IANA budget. And then we have to the right the Reserve Fund. And then we have the new gTLD application fees. And then to the far right, you can see the auction proceeds and again, highlighting that for FY18. We do not budget or anticipate any auction proceeds in the draft operating plan or budget.

Okay. And we can go to the next slide, please.

We would just like to highlight here two new components to the planning process. The first one being the Caretaker Budget. As you can see in the published document, we have presented a section on the caretaker budget. This relates to the community power to reject the strategic or operating plans and budget. If the Board approved, operating plan and budget is vetoed, a caretaker budget replaces the operating plan and budget during the veto resolution period.

So, we have provided assumptions as it relates to what we've presented in the published document for a caretaker budget. I know that we will be discussing shortly the veto and the Empowered Communities in just a minute so I'll move on from here.

The next key item that we would just like to highlight that is presented in our draft operating plan and budget is what we call the Unfunded Potential FY18 Activities. If you recall, I listed or

highlighted that there was a risk related to expenses as it relates to Unfunded Potential FY18 Activities. This is a list that we've prepared and included in the draft operating plan and budget that has activities and expenses that were considered during the budget development but not included in the draft FY18 budget.

These activities are to be considered during FY18 based on priority and availability on funding. And the availability on funding would be as a result either of higher funding than what we had budgeted. Or if expenses come in lower than what we had budgeted, then there will be consideration on whether or not to complete some of these unfunded activities.

So, I'll pause here to see if there are any questions on that.

GIOVANNI SEPPIA:

Any question? Thanks again, Xavier, Becky and Taryn for the presentation. Any question so far? No? I have one. Because I went through the entire published FY18 operating plan and budget. And what I've seen is that it's much more accurate than in the past. So, thanks a lot. And also, it's much clearer because it shows as an example the unfunded possible activities.

There are couple of elements that I didn't see probably because it was just the first reading. First one is I tried to detect down if there is a place in the presented operating plan and budget

where ICANN shows that there are efforts in place to optimize the cost as this working group has underlined several times.

And another one is more relating to the narrative of the operating plan and budget which we already discussed in the past. And I know it doesn't depend entirely on Xavier team in the sense that when going through the different portfolios and projects, we'll see again that there are some of them that are clearly described. And as I said to myself, they are accessible to a reader, any reader.

Some others, they are a bit let's say overly casual, I was sad to say. A bit less, let's say, approachable by those who are reading the entire document. So, I'd like to ask if there is a place, first of all, in the document where we can see that there is a commitment to optimize the cost throughout all the portfolios' expenses and so on.

And the second one is instead a recommendation to, once they've done this tremendous job to put together all the input you have received to eventually ask a completely third party to go through. Of course, the result of confidentiality to go through the text to see where there are areas some that the language can be made clearer to any reader. Thank you.

XAVIER CALVEZ:

Thank you. Starting by the last point on the document, we struggle every year to have a leveled level of quality of the description of the operating plan which is the projects, the portfolios and so on.

And so, you're right, it's of different quality, different level of clarity, different level of details across those 340 projects that we track. And simply because this is not written by one person. This is written by 100.

Each department's manager has people in their department. They create projects, diminish these projects, they provide the descriptions into a centralized project management system which is where we extract that information. And, of course, we do review it. We do try to harmonize language and so on. But we don't rewrite it in a "central office" in that therefore the consistency, is there's no necessary consistency. Simply it's how it came about from all the managers of the organization.

It has the merit of being closely related to the activities but it has the challenge of being written by 100 different people with 100 different ways of writing it, either really quick, either really elaborate with different English levels and so on.

So, we could have one person writing it but then we would have a very limited amount of insights in depth on the information

provided. But this is a constant effort. And for us, it's about the education of the managers of projects to own the standard requirements of information provided on the quality of the description. And it's a constant exercise of education and it's a constant challenge to reach that level. You have made this comment in the past. We haven't found the "perfect solution" to achieve that consistency. It's keeping at it.

Cost optimization, there's no specific place in the document where we talk about cost optimization. I think that there's a number of aspects of what the organization does normally in terms of what we call operational excellence under Susanna Bennett's responsibilities and the COO where there's a lot of work on harmonizing the projects on the KPIs to measure the performance of each of the projects and portfolios that help us with trying to optimize the activities and avoid overlap, for example. So, trying to ensure that we don't spend more resources on performing activity. That's an element.

We have had not as much recently but we have had a number of what I would call, in other words, we'd call it cost cutting but cost optimization initiatives of looking at the costs per department, per organization, cost by type and trying to see what we could do, how could we do as much work with less money. We've done that on telecom costs for example. So, we've

been able to cut about 60% of our telecom cost by about 30% simply by renegotiating the contract and changing vendors.

We've been wanting to carry that out for all of the telecommunications costs but there's been challenges in rolling that out across notably some community supported conference calls, because some countries were not supported by the new carrier that we use. So, some communities who have participants from those countries are saying, "Well, we don't like it because it doesn't have this country or that country." But the saving from the previous carrier to the new carrier was very significant. And we're hoping to be able to roll that out further.

So, we've been looking at a number of categories of costs like that to try to optimize it. We are not providing insights to your right on those activities in the document. And that's definitely something we should try to consider. I would like to do it in a structured fashion rather than in an anecdotal fashion to explain a bit what we do but so that I think that's a good improvement to make. Thank you.

GIOVANNI SEPPIA:

Thank you, Xavier. As you have mentioned, the travel and the carrier, I take this chance because recently I was involved as a

side spectator into couple of people checks on their travel support that ICANN provides to the community.

And the preamble is that I'm fully in favor of travel support. But when I confronted myself with the cost that ICANN has paid in 2016 to fly some people to some meetings, I was literally shocked because paying €9,000 for a business fare in 2016 probably it's because I'm coming from the travel industry many years ago in my past life. Nine thousand, it means that probably I don't know who's making these arrangements. I don't want to know honestly. But €9,000, in 2016, is something that was let's say something that could have been spent in 15 years ago because that was the market of the different airlines 15 years ago.

But in 2016, competition is such a level that €9,000 is really, for a business class I'm saying, is outrageous for other people including just to finish fly business class people for a 30 minutes flight. To me, that is nonsense.

XAVIER CALVEZ: Thirty minutes flight?

GIOVANNI SEPPIA: Thirty minutes flights, yes. So, I don't want to say the names but there are some people flying business class for 30 minutes in Europe. And to me, that is really something that shocked me especially considering all the cost optimization that is going on in Europe.

XAVIER CALVEZ: So, I think we really need to be careful isolating a case and making it generally to you, Giovanni, because I know of one travel of \$9,000, that's a person that got sick that was traveling business that we had to fly in emergency back home. So hopefully that's not that specific case.

But I completely agree with you. In isolation, any trip in business of \$9,000 is thankfully on the very high end is extreme and is an exception. Though it is an exception that we see a bit more often for people who are based in Australia because going nearly anywhere from Australia is a long trip.

So, whether it's a Board member and we've had Board members in Australia or a community member who is under a medical exemption which why a community member would travel business if there's a medical exemption. If we have such a case – and we have such a case from Australia or New Zealand – it

becomes a very expensive endeavor. And this is definitely something that we need to try to avoid.

Nonetheless, I want to point out that this is an exception. And we have, of course, for example, the community supported travel is in coach unless there is a medical exemption, irrespective of the duration of the trip. So by the way, when we make someone travel 30 hours in coach to go from North America to Johannesburg, for example, or when we make the staff travel in coach for that matter is on the other end of the spectrum. The travel policy is that the staff travels in coach for any trip under eight hours and to ICANN meetings irrespective of the duration of the trip.

GIOVANNI SEPPIA:

Sorry, Xavier. Just probably I was not clear. I'm not questioning the policy. I'm sure that you have a great policy in place. I was just saying that even if you have a medical exemption or whatever, a business class fare, and by pure chance for instance, I'm flying two people from Australia to this meeting because I have to meet them at the end of this meeting. And after few days of search, the travel agent made a great business class with a great airline for less than 4000.

So just a matter of watch the fare that you are proposed and make an extra. And I'm not questioning, again, the policy. It's not my business. I'm just saying that I was very surprised to see some figures in 2016. Leonid.

LEONID TODOROV:

Yes. I understand. There might be some problems with this travels as usual. My question is a little bit different because I found some inconsistencies, at least to me. And I would just very much appreciate some clarification.

So, there were two figures which drew my attention. There is minus 2.9% change in project expenses while there was plus 4.3 increase in new hirings. So, my understanding is that when you have some change in project expenses, that probably is associated with some less work load and less staff costs. Meanwhile, there are new hirings. If you could just elaborate on this please. Thank you.

XAVIER CALVEZ:

So, the projects are capital projects. So, it's been on an application, for example, developing an application. So, it has really nothing to do with the staff's report. The projects, the other example we've isolated is the building out of the fourth floor that we've rented in Los Angeles. So that's also unrelated

to personnel and it has no impact. So, the relation that you were assuming doesn't exist.

LEONID TODOROV:

Yes. Yet another question about, speaking of these facilities, not a question, I'm just curious, out of curiosity. ICANN has some facilities in Brussels and some in Palo Alto, if I'm not mistaken. So, from what I heard, I may be wrong in assuming that but what I heard is most of time, they are just idle and not used at all. So, in terms of cost optimization, weren't there any efforts to somehow optimize the use of those facilities? Thank you.

XAVIER CALVEZ:

So, ICANN does not have an office in Palo Alto and does have an office in Brussels. The Brussels office has a capacity of 12 people plus a meeting room. There's the staff occupying that office was until end of last year, about ten people and it's now reduced to four or five. And there's among the hirings that we have planned. There's a plan to increase a bit the capacity of that office.

When we saw that there were plans for headcount either to transfer to relocate to other places, we've looked at plans to reduce either partially or entirely our presence in Brussels. We didn't think that not being in Brussels was the right thing to do because of the European Commission presence and that there's

sufficient amount of interaction that it was warranted to have but to have a different presence like, for example, one office rented at [Ridge's] place or something like that.

So, we've considered that. We've considered splitting the space in two to be able to sub-rent the other space. So, it turned out to require about \$800K of construction work to do so we felt that it was not warranted because the duration of our lease there weren't making that happen.

So, we've looked at the options at the bottom-line. And it is possible that we actually expand the number of staff members that would be in Brussels either as a result of relocation or as a result of one or two hirings. So, the bottom-line is that after all that exercise of trying to reduce the space, it looks like we could actually nearly fully use it. I think that answers your question.

GIOVANNI SEPPIA:

Thank you, Xavier. Is there any other question? Also, we have a couple of remote participants. Any question from the remote participants? No? Okay. So, I leave the floor for I guess the last couple of slides in the sense of the next steps in the budget process.

BECKY NASH:

Yes. Thank you, Giovanni. On slide 27 here, we just have presented the next steps in the budget process highlighting a few areas that may be of interest to everyone as it relates to the first state. We are asking that if any of the community members have clarifying questions based on the review of the draft five-year operating plan update and FY18 operating plan, we would suggest that those please be submitted to us by the 19th of March. That will then give us an opportunity at ICANN org to post responses by the 31st of March for any clarifying questions that are received.

Then we also request that the community reach out to us by the 31st of March in order to set up a meeting as needed. And that would be whether we need to also clarify the clarifying questions and prepare to review any public comments that are submitted. Again, the public comment period does end on the 28th of April and we do look forward to receiving comments on the draft budget. The final date on this list after many activities would be the proposed adoption of FY18 budget which would be on or around the 24th of June.

XAVIER CALVEZ:

Sorry. Just want to make clear that we have the best couple years and the intent to repeat offered to those who have submitted comments, to have a call to review those comments

to discuss them. Giovanni has taken advantage of that possibility with I think a few of you in the past two years. It helps us understanding better the comments and therefore have a chance to better respond to the comments.

And I think it's been useful from your perspective as well to be able to convey a bit more color or background to the comments that are written and also start understanding a bit better how we are addressing the comments. So, it feels like maybe a little bit of an administrative extra step but it's been actually one that has helped us do a better job at responding adequately to the comments. So, for us, it's a very important one.

I noticed in the CCWG discussions on the Friday that this was a recommendation being made for staff to improve the quality on the comments. And I'm glad that we've been able to do this because it is something that is helpful from our perspective.

GIOVANNI SEPPIA:

Thank you, Xavier. Very last slide I guess for Becky.

BECKY NASH:

Yes. Thank you. This next slide, we just would like to present ideas about how to get involved. So, it's slide number 28. There we go. We would like to highlight that there are two upcoming

sessions here at ICANN58 where we have a Budget Working Group which will be on the 14th of March, 5:00 to 8:00 pm. This is a working session as it relates to the operating plan and budget process. And we will be covering the Fy19 process as well. We would like to know if you could attend that. Please let us know.

The second session that we are having here in Copenhagen is the 16th of March at 9:00 am. We have a session titled Financial Accountability Operating Plan and Budget. And we do welcome participation at that session as well.

We're just highlighting at the bottom of the slide, the public comment period which we've talked about. And then for anyone that would like to join the community finance e-mail list, to keep apprised of financial e-mails and sessions and webinars that we have. If you would like to subscribe, please note that we have a e-mail address at the top of the slide, controller@icann.org and we can add you to that list and look forward to more interaction and participation together.

So that is basically the end of the presentation. But we would like to thank you very much and please come to the sessions that we have upcoming.

GIOVANNI SEPPIA:

Thanks a lot, again, Becky. Xavier, you want to...?

XAVIER CALVEZ: I just want to make sure that all of you, if you can come to the Budget Working Group. Of course, it's completely open. There's no members and non-members. It's anyone who can. And there's a lavish dinner offered as Giovanni knows.

GIOVANNI SEPPIA: That dinner. I still have memories of certain dinners.

XAVIER CALVEZ: Consisting usually of chips and sandwiches during that session. But even if you can only participate to an hour of it, that's perfectly fine. It's tried it to be scheduled at a time that's conflicting less with other sessions which is why it's late in the day. But anyone is really welcome.

GIOVANNI SEPPIA: Thank you so much, Xavier. Now, the last part is about the Empowered Community, everything that has changed since the enforcement of the revised Bylaws as of October last year. We have Stephen who is the ccNSO representative in the Empowered Community structure. And he's going to take us through the structure and then Xavier can complement what Stephen is going to illustrate to us. Thank you, Stephen.

STEPHEN DEERHAKE: Now that you heard what the budget is going to look like, I'll tell you how the community can reject the budget which I hope it doesn't do. Can I get to the background slide? Who's running? Who's driving the slides? Thank you.

As we all know, on the 30th of September, the transition completed without incident. The light stayed on and the new Bylaws came into effect. Next slide.

So, the question is now what? We have now our considered to be the Empowered Community and we have a lot of rights that we can exercise in reviewing and rejecting various things that ICANN does. And the rights are exercised by community members through their respective supporting organization or AC.

So, in the case of the ccNSO, if the ccTLD manager decided they had a real issue with some aspect of the budget that they felt was not properly addressed during the comment period in the revision, etc., etc., they could file a petition to the ccNSO Council formally raising an objection to the budget. And that's how that would work.

The full process of the Empowered Community handling rejection requests and other Empowered Community actions is run by a new organization which is known as the Empowered

Community Administration or ECA. And it consists of one representative from each of the SOs and ACs. Can I have the next slide, please?

One member for each SO/AC, the GAC also has a seat at the table. And as mentioned earlier, I represent the ccNSO and the ECA. And that's the ECA that manages the exercise of the community powers. Next slide, please.

So, among the community enhanced powers, we have what's known as approval actions which involves something the ICANN Board does that requires active approval by the community. One example of that is the fundamental Bylaw change. The ICANN Board cannot willy-nilly change ICANN fundamental Bylaws. They have to get the changes approved by at least three SO/AC members.

We have what are known as rejection reactions. And I'll go into that in some detail because that's really the focus of this group at this point in time. We have removal of individual Board members and the entire Board. We can also initiate a mediation community independent review process or reconsideration request. Next slide, please.

Approval actions, as I mentioned earlier, fundamental Bylaw amendments, asset sales and changes to the Articles of

Incorporation. We actually will have an approval process before us at the Johannesburg meeting. Next slide, please.

Rejection actions. As you can see, there's quite a long list. There's ICANN budgets, the IANA budget, the operating plan, the strategic plan, standard Bylaw amendments, PTI governance actions, etc., etc. My focus here is really on the first four. The budgets on the operating strategic plans. Next slide, please.

Next slide. So, the procedure begins with the delivery of a Board notice for a rejection action to the ECA and all the decisional participants. And this triggers what's known as the rejection action petition period. So, the concrete example I'm looking at will be approval of the ICANN budget on the 24th of June tentatively. If that happens, that will kick off this process and the community will have until the 15th of July. Community members will have until the 15th of July to raise in a formal objection with their SO or AC if they don't like the budget.

If at the end of that period, there's been no objection filed by a community member/decisional participant, then the process stops, the budget is finalized and that's the way it goes.

However, if the member files a formal objection, next slide, then the SO/AC that receives it from the community member has to review it. There's a whole long list of requirements for that

petition to be accepted by the SO. SO and AC also has the option of rejecting a petition filed by one of its members.

Upon acceptance of a petition, however, then the ECA is notified and there is requirement that a teleconference call be scheduled in a fairly rapid timeframe. The teleconference is optional but there's also a public forum that has to be held. And that will either by teleconference or postponed to the next ICANN public meeting. ECA notifies all the other SO/ACs as to what's going on. Next slide, please.

So, this is the rejection action petition. What has to happen within seven days of SO accepting a rejection petition from a member is that they have to solicit the other SOs and ACs for support. For a petition to go forward, it requires the support of at least one additional AC or SO. And if doesn't get that support, then the process terminates and the budget would be adopted in the case of the example I'm using. Next slide, please.

As I mentioned earlier, the ECA will have to hold a public forum at some point here, again, either via teleconference or at an ICANN public meeting depending on some factors that are not entirely clear at this point.

At the end of this decision period, the ECA counts the votes of the SO/ACs basically and lets ICANN know one way or the other

what's the community's decision with regard to the rejection petition. Next slide, please.

And that's all I've got. Any questions?

GIOVANNI SEPPIA: Thank you. Thanks a lot, Stephen. I know that Xavier would like to add something. Any question first? Leonid?

LEONID TODOROV: Thank you, Stephen. That was very helpful because the document is very lengthy and very, very hard to examine in detail. I'm particularly interested in your take on this seven-day period for SO/AC to express support to whatever rejection voiced.

So, my question is, do you think that it's a realistic timeline given that one needs to garner support from not just an individual member but from a huge number of participants involved in a certain SO or AC? Thank you.

STEPHEN DEERHAKE: I'll be pretty blunt about it. The timeframes that are sprinkled throughout the new Bylaws with regards to exercising the community powers are sacked in ICANN's favor. If at any point a

deadline is missed, boom, the process stops and ICANN prevails. Having said that, I think we're stuck with them. And I think they may well cause some issues with the reality of how SO/ACs generally make decisions.

I know in the case of the ccNSO, I think we're going to be very challenged to get some decision-making done in the timeframes that are stipulated. It will be a challenge to all the SO/ACs I think but I think we're stuck with it.

GIOVANNI SEPPIA: Thank you, Stephen. Xavier.

XAVIER CALVEZ: I just wanted to make a precision on what Stephen said and please correct me if I'm not on point. When we go to the next step in that escalation process, as Stephen indicated, if the required approval is not obtained for the rejection step to be approved, it then gets adopted, it's that the budget is already approved by the Board. It's in place until the rejection is then approved by the Empowered Community. And on that point then, it becomes held and replaced by the caretaker budget.

So, I just wanted to make sure, I'm clarifying that it's in place because it's been approved by the Board from July 1st. And upon

completion of the escalation process leading to an approval of the rejection by the Empowered Community, then the budget is rejected. Thank you.

GIOVANNI SEPPIA:

Thank you, Xavier for clarifying. Any question to Stephen or Xavier? No? Looks like we're warming up for the comment period. Okay. In the last part, last ten minutes, we'll discuss briefly about the way we plan to prepare the comments, so if Xavier has very busy schedule and his team. Thanks again to Xavier, Taryn, Becky, and Jessica. Thank you.

Okay. So, let's have this on the last ten minutes of today's meeting to discuss the formula to prepare the comments. If we like to stick to what we have done in the past, so dividing this working group in sub-working groups and produce comments on the different sections of the operating plan and budget.

And if we do so, we will have some time for the sub-working groups. And then ten days before each sub-working group, there's going to be deadline ten days before the final deadline to submit comments so that I and Bart, we can assemble the final product and deliver it on time during the public comment period.

Would we like to continue with this approach so to divide this working group in sub-working groups? Yes? Seems there's a consensus. Now, as they have given the consensus, I'm looking for volunteers for chairing the sub-working groups.

I can see a big raise from Andreas. Thank you so much, Andreas. I really appreciate it. Leonid, two. Rosalia, three. we need four I guess. Usually there were four. One more volunteer meaning that you do have some homework. Come on. Okay. One, two. Okay. [inaudible] audience. Okay, good. Okay. Thank you so much.

So, I will divide the work and I will let you know which areas you are expected to provide your comments. Thank you. Bart, please.

BART BOSWINKEL:

So maybe it's an idea that you and I, by the end of this meeting, send out an e-mail to that extent to the full group including the timelines, etc. That makes it easier for everybody and even assign which chapter of the ops plan and budget you have to look at.

GIOVANNI SEPPIA:

Yes. Please, Rosalia.

ROSALIA MORALES: And just as always, ask the cooperation of everyone because sometimes as subgroups, we have our own deadlines. And when no one participates, the leader is in a tough position. So, all help welcome.

GIOVANNI SEPPIA: That's indeed a great recommendation. It's a must for this working group. Can I just add something? Because as I said to Xavier, I went through the operating plan and budget. As I said to Xavier, the narrative level differs quite a lot from one section to another. As we have done in the past, I think it would be quite useful if we believe there are some areas why we would like to have more information, more clarification.

We'll be happy, I and Bart, to liaise with Xavier and also via Bart with other departments of ICANN to schedule some sessions in the next working group meetings to have the people responsible for this department here to present their strategy, to present their approach. I think that would be also something that the different working groups can highlight if they feel there is this need. Bart.

BART BOSWINKEL: Maybe if you recall, I think it was a year ago in Marrakesh, when the SOP came to the conclusion that from the budget side of it was reasonably sound if not very sound. So, focusing on the monetary aspect and financial aspects is becoming a bit boring. That was the tendency.

So, it was agreed that the focus would be more on the operational side. So, on the ops plan. Maybe that's a suggestion now as well. So maybe the financial side shows the priority. It's another way of showing priorities. But then look really into detail in the operational side of it and that would be the drift of the comments.

And that way, it also prepares for the Johannesburg meeting because I think the sessions that were organized in Helsinki were very, very fruitful when the SOP invited and organized sessions and when the SOP invited the people from ICANN who are the heads of these departments. And this is the basis for it as well.

GIOVANNI SEPPIA: Yes. Thanks again, Bart. So, we'll move forward that way. And you will receive, as Bart said, an e-mail from us by the end of this meeting with some guidelines on the next steps.

Any final comment or question from anybody? No? Thank you, everybody. Thank you also to the remote participants, to Bart,

Joke, and Kim for facilitating and supporting this meeting. And also, I have to record an apology of Debbie who couldn't be with us today because she has another meeting and she sent an apology to all of us for not being here.

Thanks, everybody. And we'll stay in touch. Thank you.

[END OF TRANSCRIPTION]