
COPENHAGEN – Financial Accountability: Operating Plan and Budget
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JESSICA: Thank you everyone to everyone who is here. We'll give it a couple of minutes and let some people trickle in.

Good morning everyone. Thank you for joining us today. This session will be recorded, and during the session we'll have a pause after each section for a few brief questions, and then we'll also leave time for at the end for more general questions. So, we'll have, hopefully, about 20 to 30 minutes for that.

So, if you have a question, feel free to come up to one of the microphones, or we also have a microphone in the center. Without further ado, I'd like to introduce Xavier Calvez, Chief Financial Officer of ICANN Organization.

XAVIER CALVEZ: Thank you, Jessica. Welcome everyone. And next slide, please. I simply want to introduce first the team that participates to the development of the operating plan and budget every year. Four members of this team are present here today, and two members are remote back in LA. The operating plan and budget process is

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a 12 month long effort, with constant attention to every phase, and this team works every day on it.

Next slide, please. So, we want to make sure we put in context the ICANN operating plan and budget process, which is a critical element of financial accountability. And we'll look at that as a start. We will then provide an overview of the operating plan and budget for FY 18, which is now under public comment, since last week.

We will provide you an overview of the work of the budget working group that we have now conducted at every ICANN meeting over the past two years, and that has provided a lot of very useful input. We will then focus on one aspect that's relatively new of the operating plan and budget process, resulting from the transition, accountability mechanisms that have been implemented recently.

And then we'll have a more general Q&A, but as Jessica indicated, we'll have questions, question and answer sessions at the end of each of these four sections. With that, I'll hand it over to Taryn, who will present you an overview of the financial accountability in ICANN's mission.

TARYN PRESLEY:

Thank you. Taryn Presley for the record. So, I want to take you through a background on financial accountability. ICANN's bylaws outline our mission, core values, and our commitment to transparency and accountability. And the planning process that this group participates in is a critical mechanism to supporting that commitment to accountability to the public.

So, there are several activities that are performed, that allow us to be transparent and accountable, as it relates to financial accountability. We've grouped them into three areas of planning, which includes our strategic and operational planning, and our budgeting approach that we've adopted at ICANN org. Then we have monitoring, and that includes monitoring the financial viability and governance during the budget cycle, and then we do quite a bit of reporting, and we have reporting mechanisms that ensure that transparency of ICANN org's financial matters to the public.

Next slide, please. So, this is a graphical representation of our five-year planning process. We start with the vision and mission statement, and that informs the strategic plan. You can see those up at the top center. Our current strategic plan is for five years and it covers fiscal years 16 through 20, and it was adopted in October of 2004. That strategic plan informs our five-year operating plan, which also covers fiscal years FY 16 through 20.

And that document outlines the activities that are planned over the five-year period, and tracks our progress against those planned activities. This document is updated on an annual basis, based on the progress we have achieved. Then our five-year operating plan informs each annual operating plan and budget. We develop this annually. And we'll talk about the FY 18 draft that was published on March 8th a little later in the presentation.

But this document outlines the specific activities planned for the current or upcoming fiscal year, as well as it outlines the financial estimate of those activities. Then throughout the year, after the operating plan and budget is completed, we go through our monitoring and reporting cycles.

So, all throughout the year, we are monitoring our funding, our costs, our progress towards achieving our objectives and goals, and then we validate that information, we report it to the community, and then we also go back and validate that is, it is still in line with our strategic plan. And then the cycle continues annually.

Next slide, please. So, this is some more specific detail on how the operating plan is developed and structured. So, we start with our community input. Well, we start with our strategic plan and operating plan, which is based on community input. The

staff then takes that and puts it into a work structure. That work structure is comprised of five objectives, which are core foundational strategies upon which goals are based.

16 goals that roll up to those five objectives, which are the desired deliverables to meet our organization-wide objectives. And those 16 goals inform our portfolio structure. We have 59 portfolios currently, and those portfolios describe the cross-functional work undertaken in support of our roles, and to fill our core deliverables and services. And then within those portfolios, we have over 300 projects that are basically ongoing activities, or temporary endeavors that, with a specific set of deliverables that basically describes the activities that the organization is working on.

The objectives and goals are managed by the ICANN CEO and his direct reports, and the portfolios and projects are managed by ICANN management and staff. Next slide, please. So, talking a little bit more about the annual planning process. From a logistical perspective, what we do is, it's a three-step process. So, the first step is to forecast the completion of the current year.

So, right now, we are currently in fiscal year 17, and that's year two of our five-year operating plan, so we started out with looking at, where do we think we're going to land at the end of

'17, because that then will inform where we start in fiscal year '18.

Then the second step is to take that information and update the five-year operating plan, based on the progress that we believe we're going to achieve at the end of the fiscal year. And this includes updating portfolios, KPIs, dependencies, phasing, and things of that nature. And then the third step is to take all of that information, and develop the fiscal year FY 18 operating plan and budget, which again, is based on the updated five-year operating plan.

And all throughout these steps, the community is providing input via working groups, via working with staff, the ICANN meetings. The community is very engaged in each stop of the process. Next slide, please.

So, going into monitoring. How does ICANN monitor the process? We do this on a regular basis, and this includes comparing actual funding and costs to our budgets, so that's from a financial perspective. We also estimate financial results for the fiscal year based on the progress that we've made, just by doing assessments with each of our project donors and our portfolio owners, and goal shepherds. We take a look at, you know, what's the progress that we're making? And where do we think we're going to land at the end of the year?

And then we also review our financials in the organization on a regular basis, so that any risks or opportunities to the operating plan and budget can be addressed as needed. Next, please. From a reporting perspective, ICANN staff reports results to the community in support of our commitment to transparency and accountability. We have quite a bit of reporting that we do on a monthly basis.

We have our KPI dashboard, which hopefully, most of you are familiar with. The financial accountability falls under goal 3.1. Then we also have, you know, publication of ongoing expenses on selected projects that we publish to the community, such as, you know, ICANN meeting costs or SO AC additional budget requests. We do that kind of reporting on a monthly basis.

And then on a quarterly basis, we have our quarterly financial statements, which we publish on ICANN dot org. We also have our quarterly stakeholder calls, which hopefully, you all have participated and listened to. Then we have, again, publication of ongoing expenses on things like reviews, as an example.

Then we have quite a bit of annual reporting as well. We do, we are under... We do have annual audits of our independent auditors, so we publish those reports on an annual basis. We have our tax form 990, that is also reported on an annual basis. We have our annual report. We have our operating plan and

budget. We have staff remuneration. We have Board compensation, ccTLD contributions and many more.

And you can see all of this reporting on the ICANN dot org website, if you go to governance and financials, you can see quite a bit of reporting that we do externally. Next slide, please. So...

JESSICA: So, we'll take a pause here and ask if there are any questions on this section.

If there are no questions, we'll move on.

TARYN PRESLEY: So now, I'm going to hand it over to Becky Nash, our vice-president of finance, who will talk about the draft five-year operating plan and budget, and the FY 18 operating plan and budget.

BECKY NASH: Thank you, Taryn. This is Becky Nash. And I'm going to give an update on the draft five-year operating plan update, and the draft FY 18 operating plan and budget. This first slide gives an overview of the process and the timeline for FY 18. At the top of the slide, we can see that the process for FY 18 started at the end

of September, when we published a process timeline, and started to have webinars and discuss the planning process with our community.

The next timeline point that we have here is that at ICANN 57, we had our community budget working group, where we reviewed all of the assumptions and gained a consensus on areas to focus on for the FY 18 operating plan update in the budget.

The next key milestone here is that on the 8th of March, we did publish the five-year operating plan update. The FY 18 draft operating plan and budget. We're going to highlight that this budget will be out for public comment for approximately 52 days, and the next, and that ends on the 28th of April.

Our next key milestone will be the 25th of May, when we will have the report back out on the public comment period. And then the final key milestone here will be the adoption of the budget at ICANN 59. We just give a comparison to the process for FY 17, just so that we present that we're on track for prior year's process just for comparison.

Next slide, please. As a highlight of the five-year operating plan update, we focus on what has changed for FY 17, and then we incorporate changes into the FY 18. The types of changes that we could have are any changes to objectives or goals, but we would like to highlight that all of the objective and goals that

were defined in the five-year strategic plan, remain unchanged for the five-year operating plan update for this year.

We also then look at portfolios, KPIs, dependencies and the phasing of our operating plan. And we update these dependencies to reflect work that will be completed by the end of FY 17, and then schedule the work to be started in FY 18. We'd like to highlight three high-profile updates for this year's operating plan update and draft FY 18 budget.

The PTI or IANA functions operating plan has been incorporated into the total ICANN operating plan. And you will see in the draft document that's published, we do have a section called the IANA budget, which is presented as part of the ICANN total budget. The next key item is that we do not have any assumed expenses for the IANA transition stewardship project in the FY 18 budget.

The final key high profile update is that the reviews now incorporated into the bylaws, are now called specific reviews and are presented in the operating plan update. Next slide, please.

On this slide, we give an overview of the structure financial reporting for ICANN. This is how the document that's published for public comment is organized. We're on the left-hand side with the blue heading. We have our ICANN operations, and ICANN operations includes funding, formally called revenue, for

ICANN operations, and the PTI IANA functions, and has base line multi-year project expenses, also for ICANN operations and the PTI IANA functions.

And at the bottom of that left-hand side, you can see that the activities for ICANN operations are linked or funded through the operating fund. The next big blue box is called initiatives, and again, as we indicated on the highlights page, we do not have any initiatives anticipated in the FY 18 budget that are funded from the reserve fund, but that is something that we presented in FY 17.

Over to the right, we have the new gTLD program, with the application fees that were collected for the new G program. Each year, we have funding of the program that's recognized, and then the expenses of the program. And we have at the bottom, the funds related to the new gTLD funds, which are the application fees that were collected. And then the next box over is the, at the bottom, in gray, is the auction proceeds.

And as you can see there, there are no related activities for funding or expenses as the auction proceeds are collected and held in the auction proceed fund. And this bin, on the right-hand side, is what we call total ICANN as presented in the FY 18 draft budget. Next slide, please.

I'd like to give an update on the draft FY 18 operating plan and budget, and the highlights. So, the first highlight is the FY 18 operating plan is year three update of the five-year operating plan. We're highlighting that there are no major changes to baseline operations. In addition, the IANA functions are reported as a segment called PTI slash the IANA budget.

Point number two, the FY 18 budget is a balanced budget. What this means is that the funding of 142.8 million equals the baseline ICANN operation expenses, also the 142.8 million. So, we're presenting a balanced budget. The next key item that I've also mentioned before is that there are no planned initiatives to be funded from the reserve fund.

Another highlight for the FY 18 draft budget is that the funding increases, but at a slower rate of growth than we've seen in the past. The funding forecast of 142.8 million is 5% growth above the FY 17 forecast, which is 135.9 million. However, this rate of growth is a slower rate of growth than in prior years, and this is consistent with the number of new TLDs that are now in operations, and reaching its peak, meaning that the new gTLD program has almost all of the TLDs anticipated to be delegated to be delegated.

Point number four, we'd just like to highlight that the ICANN operations baseline expenses are increasing at about 5% after

we exclude the contingency or a budget item for unforeseen expenses. And this is a 5% increase over the FY 17 forecast of 130.4 million. And the increase is driven mainly by personal expenses. Next slide, please.

This next slide gives us an overview of the FY 18 funding. At the top of the slide, we can see that the FY 18 budget includes funding of 142.8 million. This is the best estimate scenario that's included in the budget. And the types of funding that we have, on the left-hand side, we see that funding sources are from registries in the blue box and from registrars. At the top, the heading, the first blue heading talks about the funding for transaction fees, which is driven by the domain name registrations. So, the transaction fee driven funding from registries is approximately 40% of the total funding from ICANN operations at 57.3 million.

The transaction fee funding from registrars is 36.9 million, or 26% of the total revenue. Over on the right-hand side, we have a heading called driven by the number of contracted parties. This type of revenue is related to fixed fees that are driven by the number parties under contract, and for the registries, we can see that the per TLD fixed fee represents 30.8 million, or 22% of our total funding.

And the application fees, one-time application fees, or the annual accreditation fee for registrars, represents approximately 14.1 million, or 10% of revenue. Down at the bottom of the slide, we are highlighting that we have other funding sources, and they represent 3.7 million or 2% of the total annual funding.

On the right-hand side of the slide, we do list our scenarios. As you will see, in the published document on our website, we do have tables of assumptions, explaining the different scenarios where we have a low at 142.3 million, and a high at 146.6 million, and those assumptions are driven mostly by changes in the number of, percentage of the new gTLD TLDs that have billable revenue. Next slide, please.

The funding has risks and opportunities that we've highlighted in the draft operating plan and budget. Again, the highlights related to our funding is the best estimate scenario is considered a conservative scenario, and in addition to that, we've had several opportunities to engage with the community, and we've received general feedback of acceptance of the reasonableness of the conservative nature of the funding estimates included in the FY 18 budget.

The risks that we're highlighting is lower legacy transaction growth. That is a low probability, that we've listed at a risk of approximately half a million dollars, and that's due to the fact

that in the FY 18 budget, we do have a historical trend of 2.3% growth for legacy TLD transactions growing.

The opportunities that we've listed are related to higher new gTLD transaction growth. It's a medium probability with an opportunity listed at 3.8 million, and what this relates to is that the draft FY 18 budget includes assumptions of growth related to the new gTLD transactions of approximately 30%, and the high estimate increases that growth rate up to approximately 60 to 65%.

Next slide, please. Now, I'm going to move into the assumptions as it relates to the expenses. So again, annual expenses for baseline are cash expenses for ICANN operations, plus the IANA budget. We've highlighted again that the baseline cash expenses equals our annual funding, and again, it's a balanced budget.

The baseline expense growth is slowing down. As you can see, a comparative to the FY 17 budget, and the FY 16 actuals, we have a 5% growth in ICANN operations expenses. We're highlighting that the expense slowdown is related to a slower growth rate of headcount in FY 18. We've listed here a three-year view of the growth of headcount, and as you can see, that from FY 17 to FY 18, we do have a 24 headcount growth, or 6%, which would take the headcount at the end of the period to 417, or an average of

414, and that's compared to the projected June 17 headcount of 393.

Another highlight for expenses is that in the draft FY 18 operating plan and budget, we have assumed that the IANA stewardship transition project would conclude in FY 17, and this does include the fact that we do not have any expenses projected for work stream two. Next slide, please.

We've presented risks and opportunities as it relates to the baseline cash expenses. One of the risks that we've highlighted in the draft operating plan and budget, relates to the probability of carrying out what we're calling, unfunded potential FY 18 activities. The unfunded potential FY 18 activities are activities that have been contemplated during the development of the FY 18 budget, but were not included in the budget.

As a result, we're highlighting that this could be a risk, however, as we note later in the presentation, unfunded potential FY 18 activities would only be prioritized should funding become available. Another key risk for ICANN is the increasing urgency of large projects to be carried out. So, should there be a need to prioritize that we would highlight that as a risk for additional large projects.

The potential impact of the bylaw driven cycle of reviews, both on community and ICANN organization workload and

bandwidth, is also a risk. Another risk that we're highlighting in the presented FY 18 operating plan and budget, is the work stream two transition work expenses delayed to FY 18.

Opportunities to the budget are the ability for both the community and ICANN to prioritize activities and to plan the work within the budget, and the funding that's available. Another opportunity we're highlighting is the ability to reduce headcount growth as a result of possible optimization of resources. Next slide, please.

On this slide, we present, as part of the FY 18 budget, the PTI and IANA budget. The PTI operations FY 18 operating plan and budget, was adopted by the PTI Board on the 27th of January 2017. This operating plan and budget for PTI operations was then presented to ICANN as input into the total ICANN IANA budget, which is incorporated into the total ICANN budget.

As we can see on this slide, the PTI operations budget of 9.6 million was presented as input to the IANA budget, and the IANA budget then incorporates operating expenses related to the RZMA and capital of 0.4 million, to arrive at a total of IANA budget of 10 million. The IANA budget is included in the FY 18 operating plan and budget, and there is a caretaker budget also included in this draft plan and budget, and that's in case a veto

process would be triggered and the IANA budget is subject to public comment. Next slide, please.

On this slide, we give an overview of the new gTLD program using a multi-year forecast format. This is a schedule that we present in our quarterly stakeholder calls, and we'd like to highlight that on the left-hand side, is the total program forecast where we have the application fees that we collected as part of the new gTLD program of 362 million.

And the total forecasted expenses of the program listed at 267 million, comprised of the costs of the project and the program of 214 million, and refunds related to applications of 53 million. On the right-hand side of the slide, we give the multi-year forecast by year. We're highlighting that in the red checkered box there, those are the assumptions that were incorporated into the total ICANN budget for FY 18, where we can see program revenue or funding of 22 million, and costs of 13 million and refunds of 9 million. Next slide, please.

This next slide gives a view of our total ICANN financial summary. On the left-hand side, we have the total ICANN draft FY 18 budget, and just to highlight in blue, we have total ICANN operations with funding of 142.8 million. And with baseline cash expenses of 142.8 million. So, with a balanced budget, there is a net asset of zero.

I'd just like to highlight that this column also includes ICANN operations plus the IANA budget. For FY 18, we have the financials in the next column for the new gTLD program, where we can see the revenue net or the funding of 19.5 million, and baseline cash expenses anticipated of 10.9 million, with an increase to net assets of 8.6.

The final column there is total ICANN, where we can see the total funding of 162.3 million, total baseline cash expenses of 153.7, and net asset increase of 8.6 million. On the right-hand side, in green, we present the FY 17 forecast. Again, we have the total ICANN operations, which is baseline the IANA budget of IANA functions, and then the new gTLD program.

And I would just like to highlight that in the new gTLD program, we also have the auction proceeds that were received in July, and that relates to the 135 million. So, on a comparative basis, that also includes the auction proceeds. On the right-hand side, we present the total variance as it relates year over year, and again, the major highlights of the FY 18 operating plan and budget is that the ICANN operations is a balanced budget, and that there no new initiatives to be funded from the reserve fund.

Next slide, please. This next schedule presents the cashflows for the draft FY 18 operating plan and budget. This is presented in the published document. This cash flow highlights the different

funds under management, and the flow of, in-flows our out-flows as it relates to these funds. Here we can see that the operating fund has a projected balance as the 2630, 2017, of the 44.9 million. And based on the funding from contracted parties, and the expenses projected for ICANN operations and the IANA budget for FY 18, we can see that the funds under management for operating funds at the end of FY 18 are projected to be 55.4 million.

The next column reflects the reserve fund for FY 18, again, we have no new initiatives to be funded from the reserve fund. We're just highlighting the only movement in the reserve fund would be related to the reimbursement from the reserve fund, for the IANA transition project expenses, for the second-half of the last six months of FY 17.

That reimbursement is always in arrears. The next column is the new gTLD program, and we can see that based on the application fees collected, and the anticipated refunds to be issued in FY 18 and the program expenses, we do have a remaining fund of 100 million. The last column relates to the auction proceeds. The cumulative balance of auction proceeds collected, and again, there is no movement anticipated in FY 18. Next slide, please.

This slide provides information on items that are new to the process that we've included in the draft operating plan and budget, and the publication. The first item here relates to the caretaker budget. The caretaker budget relates to the community powers to reject the strategic and operating plans and the budget. And if the Board approved operating plan and budget is vetoed, a caretaker budget will replace the operating plan and budget during the veto resolution period.

We have included, in the document, the assumptions as it relates to how we developed a proposed caretaker budget. And we have also presented that for the IANA function and for the ICANN operations budget. The next key item that's new to the process, that I had mentioned earlier, is the unfunded potential FY 18 activities. Again, just to highlight, that this is a schedule that lists a number of projects that were contemplated during the budget development, but were not included in the draft FY 18 operating plan and budget.

And we just would like to highlight that these activities will be considered during FY 18, only based on priority and the availability on funding. And the availability of funding will only arise from greater funding than budget, or lower expenses than budget. Next slide, please.

On these next two slides, we're just highlighting the table of contents as it appears in the published operating plan and budget, that is on our website. We encourage... This is the beginning of the public comment period. The public comment period does end on the 28th of April, and we would just like to highlight that there are detailed schedules, many of which we've highlighted in this presentation today, that we encourage everyone to go and look at on the publication. Next slide, please.

Again, as part of the document, we have the detailed descriptions of the management system, detailed descriptions of the operating plan and portfolios, and all of the budget schedules related to the FY 18 budget. Next slide.

I'd like to go over just the next steps, highlighting several key dates. As we indicated, the public comment period launched on the 8th of March. The next key date that we are highlighting is that we are requesting that by the 19th of March, clarifying questions, as needed, on the draft FY 18 operating plan and update, or the five-year operating plan update, we would like to receive those clarifying questions from the community by the 19th of March.

We would also then like to receive, by the 31st of March, any group that would like to setup calls right after the public

comment period ends on the 28th of April, we would like to have those calls scheduled, as needed, so that the planning team could review the submitted comments, and again, as needed.

The next key date highlighted in blue, is the end of the public comment period, which is the 28th of April. The steps after that progress towards the 25th of May with a staff report on the public comments will be published, and then we have estimated dates there for preparation of the document for final adoption. And one new step highlighted there, on the 10th of June, estimated date, is that we plan on publishing, to the community, the final FY 18 operating plan and budget that is intended to be submitted to the Board for approval.

And we will have a document highlighting any changes from the draft. And the final step would be presenting the operating plan and budget, and the five-year operating plan update to ICANN's Board for approval on or around the 24th of June at the next ICANN meeting. Next slide, please.

And this concludes the financial overview section. So, I would think we would just pause here for a moment to see if there are any questions on any of these schedules. And I do see a question here. Thomas?

THOMAS:

Yes, this is Thomas [inaudible] for the record. One of the CCWG co-chairs. And some of you already do know this, but we've been able to remove one of the items that you have flagged as a risk in your overview, and that is, this risk is not there anymore, it's a fact. We will not conclude our work in financial year 2017.

So, this, and we've been discussing ways with of yet to move forward that budget to financial year 2018, because we do not expect to require more funds than originally anticipated. We just take longer to spend the money. And then there is an associated question because the budget that we control does not contain staff costs, so there are additional complexities for ICANN to resolve internally.

But we will spend this money in FY 18, if at all possible. You know, it's not been agreed upon, but that's just current status.

XAVIER CALVEZ:

Thank you, Thomas. Just to confirm and explain to everyone. We have finalized the draft that's been published, that we've described here, before the confirmation of what Thomas just said happened, which is at this ICANN 58 meeting. So, we had only reflected the position, the latest position, approved by the chartering organizations regarding WS2.

And we're, as Thomas said, we're working with the co-chairs to be able to formulate a possible extension of WS2, which is next in the hands of the approval of the chartering organizations, I suppose. Thank you. Any more questions? Andrew.

ANDREW SULLIVAN: Thank you. My name is Andrew Sullivan. So, I was slightly confused about one of the sliders earlier, because it seemed that PTI and IANA were both in the same budget and I wasn't clear. So, I went and looked at the materials. And if I understand it correctly, the combined IANA expenses are PTI plus just the [inaudible]. Is that right?

XAVIER CALVEZ: Correct.

ANDREW SULLIVAN: Okay. And so, there is no overhead implied because of the subcontracting, right? Two of the IANA agreements are actually between other organizations and ICANN, and that's just passed through directly because of the subcontract?

XAVIER CALVEZ: Correct. So, the PTI entity contains all of the costs of running the IANA functions, which include servicing all of the different

communities that the IANA functions service. And when these organizations have a contract with ICANN, then there is a contract that delegates the operations of the IANA functions between ICANN and PTI.

ANDREW SULLIVAN: Perfect, thank you.

XAVIER CALVEZ: Question from Chuck.

CHUCK: Chuck [inaudible]. I think I'm here as part of a finance group that met Tuesday night, rather than representing the registries or VeriSign, because I haven't had time to talk with those groups very much about this. Becky, thanks for a good presentation. Could you go to slide 16 please?

Just a comment here. That in the future, it may be helpful to point this out. I think most people understand that when you say registries and registrars, you mean gTLD registries and registrars. But to avoid any confusion that might come up on that in the future, it might be helpful to put gTLD on there, because ccTLDs also have registries and registrars.

And I guess there is a question that I'll ask that I'll know the answer to, but maybe everybody doesn't, and that is, I am correct in assuming that this is gTLD registrars and gTLD registries, not involving ccTLD registries and registrars, unless those entities are involved in the gTLD area.

XAVIER CALVEZ:

You are correct, and thank you for the suggestion to make this precision. We kind of assume it, but you're right, we shouldn't, and we should be more explicit about it. So, we'll make that note, thank you.

CHUCK:

A second slide, if you can go to slide 16, excuse me. Slide 18. We're on 16. Slide 18.

Okay. This is a compliment, and a suggestion for more of these. To me, this is a great slide, because it shows a trend. And for those of us that are trying to follow the budgets, any information that shows a trend from the previous year, or the previous years, I find it would be really helpful. And this particular one, I don't think we had one quite like this in the past, this is a great slide, showing the trend of headcount, and the trend of the finances as well, is really helpful.

So, my compliments on that. And you do this a lot, when you're comparing the forecasts for the current year, and the budgeted amount of expenses or revenue or funding, I guess as we're calling it now. That's all really, really helpful. So, thanks for that.

And then last of all, if you can go to slide 27.

The 19 March deadline is really tight. And I'm going to qualify that statement in a minute, but because the operating plan and budget was just posted, literally the night before I started to travel. Some people had already travelled, and because we've had this meeting going on through today. And for me, it has been super busy, good, but super busy.

And the fact that questions need to come from groups, I'm literally going to have to prepare clarifying questions on my flight home tomorrow, get them to the people that are working with me in the registry stakeholder group to get their feedback, and then present it to the stakeholder group and get it turned around and submitted by the 19th of March.

Now, I don't know that this is solvable, because I also fully appreciate what you're doing now in responding to these questions, and more importantly, accepting comments from the public comment period in time to address in the draft budget before the Board approves it in June.

Something that didn't use to happen until the last couple of years. I think the finance team knows that I fully understand the cruncher under here, but if anything can be done on that date of 19 March, and it may not be able to be done, because the more important thing is to allow you time to address the public comments before a budget goes to the Board.

So, that's the higher priority and I respect that, but that's a really challenging date, and I suspect it's not just the registries. And by the way, I'm going to try and make it happen, okay? But because that's important, but just to comment in that regard.

Again, nice job. Thanks. Appreciate all of your hard work.

XAVIER CALVEZ:

Thank you, Chuck. And just to provide a bit of context. This deadline is set so that we can respond sufficiently early to those clarifying questions, which is indicated here by the end of March, so that those questions and their answers can be published in the public comment, benefitting others in the community who would be interested.

And of course, we're aiming at providing these answers with enough time before the end of the public comment, so that everyone can benefit from them, and that creates the pressure that Chuck just indicated. Thank you for this comment. We'll try

to see if there is a little bit of leeway, that we can provide to allow a bit more time to review the draft. So, we'll consider that. Thank you, Chuck.

Don.

DON HOLLANDER:

Thank you. Don Hollander. In the 2%, couple of million dollars, in the miscellaneous non-gTLD revenue sources, there is money there from RIRs, from ccTLDs, and from sponsorship of meetings. So, in the sponsorship of meetings, how do you...? Or, do you account for contributions from the local hosts, for example, that may be paid direct?

XAVIER CALVEZ:

Yes, we do. That is in that section that income is represented when it occurs, and it's not systematic. Not all of the hosts of the ICANN meetings, let me rephrase. Not all of the ICANN meetings have a host. When there is an invitation that we receive, then the considerations are made by that host to contribute to the costs of the meeting, but it doesn't always happen.

Sometimes the host provides contributions in kind, for example, with the gala, which is a frequent occurrence. And sometimes,

in addition, there is also a financial contribution to ICANN, but this is not systematic.

DON HOLLANDER: So, my question is more around the in kind contribution that the local host may provide. Do you quantify that in the, in that...?

XAVIER CALVEZ: We don't. It's not an income for ICANN, in quotes. And as you may know, or remember, there is not systematically a gala happening at ICANN meeting. And it will usually be organized by the host where there is one, and there is often not a gala when there is no host sponsoring it.

We need to move on to the next session, but if you have further questions on the section that we just looked at, we would be happy to take them at the end of this session, during the Q&A section.

TARYN PRESLEY: Thank you, next slide please. So, the planning process is definitely a process where we use the multistakeholder model. One of the ways we do that and that we engage with the community on the planning process, is that we have a budget working group that meets pretty regularly at ICANN meetings.

And this group is a group of community members and staff, that come together and discuss the planning process, the steps, the timeline, funding assumptions, expense assumptions, how we should be engaging with the community throughout the process, etc. And right now, it's a small group of probably 20 to 30, including staff.

And again, we do meet regularly. The approach that we take is that it's interactive discussion with constructive input, comments, criticism, proposals, and generally bouncing ideas off of one another on how we can improve the process, how we can engage our stakeholders more and better, and you know, the format is that it is an open format with question and answer throughout.

It's really working sessions that we do. And our very first one, our first official one was held back in, at ICANN 52 in Singapore, and we've also held one here at ICANN 58. It was two nights ago on Tuesday night, and just want to go through some of the things that we discussed. So, next slide.

So, the working group meeting that we had on Tuesday, the purpose of it is that we wanted to get community feedback on and input on the draft documents that were published on March 8th. So, the operating plan and budget in the five-year operating plan update. We also wanted to discuss planning for FY 19,

because there are a number of items that are going to, new items to process that are going to be impacting the timing of that planning process.

And then we also wanted to discuss how we can get more community involvement in the planning process. As I mentioned, the budget working group is a relatively small group of 20 or 30, and it's been consistent with, you know, we see the same people, and we have great participation from them, but we also want to expand the group to others in the community.

So, some of the outcomes from the budget working group on Tuesday were that we got good feedback from the FY 18 operating plan and budget, which [inaudible] funding and the level of details that staff has provided in the operating plan. Then we had, you know, we had some proposals on steps we can take for the FY 19 process and a short list of recommendations to ICANN on how we can handle the process with the new requirements.

And then we also gained further and deep in mutual understanding of the need for engagement between a community and staff, and we got guidance from the community on how we can possibly increase the interaction between staff and community on the budget, on the planning process. Next slide, please.

So, some specific call outs on the FY 19 process. We had a good discussion and we came to consensus on a couple of things. So, number one, we know that FY 19 and future planning cycles will require more time and resources, and this is due to the empowered community creating more responsibility on the community to have a better understanding of the planning process and where they can exercise their powers.

So, that's going to take a lot of interaction, education, conversations with the community, which is going to extend the timeline for the planning process. And then also, the timeline is going to be a bit extended because of the Board's new area of focus on improving our financial discipline. So, we want to be more disciplined in our financial practices, and again, it's not just us, it's us being accountable to the community.

So, we would have a lot of community interaction there. Something else that we came to consensus on is that, because the planning cycles are going to be longer, then they will cross fiscal years and they will overlap, and that's something that needs to be addressed. We talked about some opportunities that would help us with this planning process, and one was discussed at length was, the potential for doing multi-year planning.

So, doing a budget that is for a two to three year period, that contains, you know, detailed expenditures and funding for more than just one budgeting cycle. And then just having a plan to kind of either roll that forward, or you know, have a rolling forecast, or just plan for multiple years at a time.

And another opportunity, you know, to address the lengthier process, is to focus more on the operating plan, which describes what we do and how it fits in the mission, engage and interact with community on what the priorities are. And that goes along with the multi-year planning, but focusing more on the plan rather than the actual budget.

And you know, we have forward thinking about what are the activities that we're going to need to do, and how do we prioritize them. So, we had good discussion on the FY 19 planning process, and we definitely are, have very open years on... If you have any suggestions on that. Next slide, please.

We also, again, talked about community engagement and how can we improve and expand community engagement. What we want to achieve is a broader and more diverse base of constituents who are knowledgeable about and involved in the planning process. And we also want to engage with the next generation of ICANN community members, so we can share information, experiences, expertise about planning, etc.

So, we talked about, what are the opportunities that we have for improving and expanding our engagement? We said we definitely should develop some sort of marketing or recruitment strategy. You know, utilizing the SOs and ACs, the newcomers, the Fellows, etc. Not limited to just those, but those are some good examples. So, we really need to kind of get the word out about, you know, the planning cycle.

How important it is. And get people excited about it. And then, we also talked about, you know, how can we make it less challenging for people to participate? You know, sometimes we're overstretched, and so we thought about well, what should be the frequency of the interactions? What should be the timing?

Should they be at ICANN meetings? What forum should we use? Should they be face to face? Should they be webinars? What kind of content should we have? So, we really just took a look at, you know, we didn't come up with any definite answers, but we said, you know, this is on the list of... These are on the list of things that we need to consider. And you know, it's going to be a task. We need to pull some participants, and we have such a diverse group within the ICANN community that we do want to take in everyone's feedback, and then try to come up with the best approach that would suit the majority of people, that would help us with expanding engagement.

And then we also talked about some things that we all need to consider and that are potential challenges to doing this. You know, there are stretched resources. All of us, you know, the community and the staff, are involved in so much, and there are so many different topics within ICANN that we really are stretched sometimes, so how do we overcome that?

We also talked about, you know, there is going to be a learning curve for new participants, and budget and planning is not inherit to all. Some people will be very new to it, and so there is going to be a learning curve for those, especially planning and budgeting at ICANN. There is going to be a learning curve for new participants, and then something that I talked about a little earlier, you know, sometimes there can be a lack of understanding of why this is important.

So, we really have to get a strategy together for communicating why being involved in the planning of ICANN's activities is important. Next slide, please. That's it. So, I'll take any questions on that section, if there are any.

Chuck.

CHUCK: Thanks Taryn. As you know, this is Chuck. I had to leave part of the budget working group meeting Tuesday, to participate in the

reception for Glenn. So, I may have missed something. But with regard to your comments on slide 31, about focusing more on the operating plan and less on the budget operating plan. I didn't think that's what... At least, when I was there, was actually discussed.

I think that's correct with regard to people who get too confused and bogged down in all of the detail, because the budget and operating plan document gets into more detail, as does the spreadsheet. I thought the conclusion... I don't know if we reached. We don't really reach conclusions, but I thought the point really was that because the operating plan doesn't change too much year to year, that the idea was for the operating plan, focus on the operating plan will be more on the changes, rather than spending more time on the overall operating plan.

And then because I know that for some of us, and I think I said this with regard to my own involvement, is that I really focus on the operating plan and budget a lot more than the operating plan, especially until the operating plan is totally updated, that would be a little different case then.

But I really like what you guys did this year, and that you highlighted the changes in the operating plan so that we could focus mainly on those, rather than the total operating plan.

Maybe I just misunderstood you when you were talking about slide 31, but just wanted to express that.

XAVIER CALVEZ:

Thank you, Chuck. I think you're right. We did discuss the benefit of highlighting changes in the plan, and be able to be more explicit on those. The comment that we're making here is a bit more general as to very simple principle of looking at the activities that the organization carries out first, and then at their financial consequence that the budget is. Looking at the budget has the limitation of the expenses that are in the budget are simply the result of the activities that we carry out.

So, being able to have substantive conversations with the community, and interaction with the community on what the organization does or doesn't do, or what the priorities should be, and what changes to those priorities should happen on an annual basis, is something that we think is going to be valuable for both the organization and the community to be involved in.

So, highlighting the changes for sure, but also being able to describe what the organization does. I think that on the basis of the conversations that we have, many community members expressed their lack of knowledge on, we don't know how this works. So, the understanding by the community of what the organization does, seems to be an area of focus that can bring a

lot of benefit to everyone, because that lets in the community be better understanding of what ICANN does.

Therefore be able to better understand what the priorities of ICANN should be, and how these should be reflected in the operating plan and budget. So, it's complementary to what you said, and we definitely did talk as you indicated about the interests of displaying and emphasizing the changes of the operating plan. But we also think that substantive understanding of the content of the operating plan is also useful. Thank you.

Since we are on here, I will take on this... Sorry. Yes, Alexander.

ALEXANDER:

Thank you. Thank you for a very interesting presentation about the budget process. Alexander [inaudible], Ukraine. So, I have like two questions like a newcomer in this working group. The first one, could you provide more information about the, what ICANN does in social responsibility programs?

Yeah, so how the community can contribute some ideas and activities in this. And second one, the financial [inaudible] we expect that ICANN will operate about half a billion fund. Could we somehow be engaged in discussion some basic principles in what it should invest, for example. So, [inaudible]

representatives shouldn't waste money from the ICANN to [inaudible] projects for [inaudible] and probably focusing on some [inaudible] sustainability process.

Definitely, it should be somehow highlighted and discussed. Thank you.

XAVIER CALVEZ:

Thank you. Relative to your first question on social responsibility, there is a group within ICANN, a small group that conducts a number of actions that we call public responsibility, which I think corresponds to what you were talking about. And in the operating plan and budget, by the way, there is, there are a number of portfolios and projects that are disclosed.

There were the resources associated, but we were happy to have, to put you in contact with that group, so that you can understand and they can explain to you the types of activities that are carried out so we'll take that as an action. Relative to the investments that ICANN does of its funds, one action that I would suggest is that, a significant portion of the funds that ICANN manages are auction proceeds, that have been received from the new gTLD program over the past couple of years.

It's about half of the funds that ICANN currently holds. And there is an ongoing process that, of a working group that is developing

the charter for how these funds will be dispersed. And as part of this process, once it gets to the point where the work on allocating funds starts, this is where anyone can submit, will be able to submit requests for funding for projects that are, of course, within ICANN's mission, or that would contribute to ICANN's mission one way or the other.

So, that's an existing venue, or possibility, that is going to come up fairly shortly, and there is already a working group on it, that has been formed in the past few weeks, and that met here at ICANN 58, and that will continue working on this project.

And the rest of the funds that ICANN managed on one hand, dedicated to the new gTLD program, which is the application fees that we collected. And we're anticipating to have about 100 million left of that by the end of FY 18. And then the last part of the funds is the operating funds of ICANN that ICANN uses on an ongoing basis.

So, I think that your question about what types of investments that ICANN can do is a question that can be addressed through the auction proceeds process. And otherwise, the ICANN operations will... The funds that ICANN manages then are in support of the mission, and the question is, what are the types of activities that ICANN can sponsor within its mission.

And that is something that can be considered through the global stakeholder teams, or the government engagement teams, but those activities will always remain within the direct ICANN mission.

UNKNOWN SPEAKER: Thank you. So, could you, your welcome [inaudible] to this working group, to be engaged, if it is possible.

XAVIER CALVEZ: This group is, has a defined membership. It was public meetings, so you can attend to those meetings as you wish. I would have to check if the membership to the working group is still open or not, but their meetings are public, nonetheless, so anyone can attend. Thank you.

If there are no further questions, we'll move on to the next section. We would like to provide a better understanding of a topic that results from the implementation of the accountability mechanisms that follow the transition, that are now embedded into the new bylaws. The creation of the empowered community has, is associated with this community being able to exercise a number of powers.

And the empowered community is an entity that represents the five organization that are ALAC, the ASO, the ccNSO, the GAC and

GNSO. And there is also a representative of each of these organizations into a group that administers that empowered community.

So, next slide please. We won't go into the details of this slide, but the point is simply to express that one of the powers, one of the seven powers that has been created as a result of the transition accountability mechanisms and enhancements, one of the seven powers is the possibility for the community to reject an ICANN strategic plan, operating plan, or budget.

As well as to reject the IANA operating plan and budget. And in the event that such rejection, after many steps of escalation would occur, then... So, if the budget would be rejected, for example, then ICANN would operate without any budget. So, under that circumstance, which hopefully would not happen, but if it would occur, then there is a caretaker budget that comes into play, to allow ICANN to operate during the period of the rejection of the budget.

So, from the point that the rejection has been approved by the empowered community until a new budget has been elaborated, and is approved by the Board. So, during that intermediate period, a caretaker budget is in place, and the FY 18 document under public comment, is offering four comments in approach to determine what this caretaker budget is.

On this slide here, this is a document that you will find available on our website as part of the empowered community processes that are being described currently, that are being formed, and documented, and it simply indicates that there is a number of steps and specific due dates for each of those steps, between the expression from one SO or one AC of the intent to reject the budget, all the way through to the last decision where all of the community then is, the empowered community is offered to improve or not a rejection power.

Once this is approved, then there is a veto in effect, and this is where the caretaker budget would be utilized. I'll stop here to see if there is any specific question in the empowered community rejection action on the budget. None. Are there any questions on any other topic that we have covered, or actually any other topic financially related that we can help with?

Yeah. Please.

UNKNOWN SPEAKER: I just have had a question... [Inaudible]. I just had a question. When you were talking about the new gTLD program, now it's nearly finished. This program has been launched. Do you think that you will be able, at some point, to produce a kind of leveraged costs of one TLD, so that we can maybe have some more focus on the future rounds?

XAVIER CALVEZ:

Thank you for that question. The gTLD program is hopefully closed to finished. There are about 30 to 40 applications still to process, that are still in the pipeline, but the vast majority, as you know, of the applications have been processed with either withdraw or proceeding to becoming a registry through a registry contract.

The program continues until all applications have been sorted out. The activity that we see now is that the last applications that are left, are ones that are either contentions or issues to be addressed, and we also deal with possible legal sometimes, or IRPs, reconsideration procedures. And the program will not be closed until those procedures are completed.

Having said that, we can effectively use the majority of the processes for all of the other applications to determine the average costs and by cost nature. And that's definitely something that's been considered and planned to do, notably to your point, in the perspective of preparing for potential new round.

So yes, that's possible. What we intend to do is try to break down the average costs by the various phases, because of course, not all applications have triggered the same amount of work. Some have just come through the process relatively

easily, in quotes, where there has been no challenges, no objections, no... And others have inevitably, been the subject of more work simply because there could have been an objection, or a dispute resolution process.

That is also something that makes the average costs, the notion of average costs a little bit challenging, because obviously, the costs for those applicants with those applications where a challenge or an objection procedure occurred, has been obviously a lot higher than for those who didn't have that type of process going on.

But yes, this is something that we will do as we come closer to the end of the program, and so thank you for that comment. This is useful to know. Thank you.

Any other questions? Jessica, do you want to comment on the email list?

JESSICA:

Sure. The last comment we have is just again, letting you know that public comment, or the documents are published for public comment, and the website is provided there. And if you would like to subscribe to our community finance email list, you can send an email to the controller at ICANN dot org email, and that

will give you updates when we make changes or publish documents.

So, if there are no other questions, thank you for coming and we appreciate your time and we hope to see you in future sessions. Thank you.

XAVIER CLAVEZ: Thank you.

[END OF TRANSCRIPTION]