ABU DHABI – ICANN Budget Basics
Monday, October 30, 2017 – 15:15 to 16:45 GST
ICANN60 | Abu Dhabi, United Arab Emirates

UNIDENTIFIED MALE: Check, check. Sound check.

XAVIER CALVEZ: We will start in a minute or two.

JESSICA CASTILLO: Good afternoon, everyone. Thank you for joining us for this ICANN Budget Basics session. If you like to move up, we, as you can see, have plenty of space. So please feel free so you can sit at a microphone and ask questions if you have them.

This session, as you know, is being recorded and will be posted on the ICANN meetings schedule within a day or two after we conclude this session.

We'd like it to be as interactive as possible. We will go through a short presentation and then take a couple questions throughout on each topic. We do have a significant portion at the end that we'll reserve for coming back to any questions we don't get to.

Our presenters today are Xavier Calvez, Chief Financial Officer of the ICANN organization; Becky Nash, V.P. of Finance; and myself.

My name is Jessica Castillo. I'm Operations and Project Coordinator for the finance department at the ICANN organization.

The topics we'll be going over today are background and learning objectives. We'll go over budget basics and then give you an understanding of the planning process. Then we'll talk about the actual budget documents and give you some essentials for participating in this process. Again, we'll have time for discussion at the end.

We wanted to give you a little bit of background about why we decided to hold this session. Our Bylaws state that we have to seek input and feedback on the operating plan and budget from community members. So we need input and feedback from all community members, really, to appropriately plan and budget for the future.

We have, luckily, a pretty significant group of people who have been participating in this process over several years and have invested a lot of time and energy to gain experience and knowledge on this process. We thank them for that. It's been really great, but we wanted to brainstorm with them and say, "How do we get more people involved in this process? How do we get more participants and different sectors of the community involved?"

One of the things that we came up with together was to do some capacity building and do a bit more training and provide some more understanding of the process at a more basic level so that anyone could participate, not just someone with a background in finance or an MBA, as someone mentioned. So this is for that group. We created this presentation from that perspective. I myself don't have a background in finance, so we took that into consideration in creating some of the questions that we went through.

What we hope you'll get out of today is an understanding of the Bylaws' requirements and process for ICANN's budget and planning and an understanding of the actual planning and budget documents and the structure of how they're put together. We also hope that you'll take away an ability to provide valuable feedback on the operating plan and budget during public comment periods and also participate in webinar discussions that we have as well.

With that, let's get started. Becky will go over some budget basics with you.

BECKY NASH: Thank you, Jessica. In this section here, we're going to talk about budget basics. So what are we talking about? For our planning process, we wanted to give an idea about what a

budget is, what an operating plan is, and talk a little bit about what they are not.

A budget just is defined as an estimate of income and expenditures for a set of actions over a period of time. Another definition of that is estimate of income (which would be sales, revenue, or in our case, funding) and expenditures (which are costs and expenses). Often a budget is called a financial plan for a defined period of time, usually a year.

An operating plan is the organization's plan on how to implement its strategy. That is going to be the how and the basics that an organization is going to do in production and/or in services in order to implement its strategy.

As we've noted here on this slide, this is what they are not. They're not fixed or unchangeable because normally you will do an operating plan and/or a budget every year. You may also do forecasts. It's an estimate, so things do change over time.

Again, our objective here is just to talk in non-financial terms for people that really want to understand what it is we're producing.

Yes, Xavier?

XAVIER CALVEZ: Thank you. Just to add a comment on that, it's important for everyone to understand that this notion of the budget is an estimate of future financial impacts. We see very often the misconception that the budget is a bucket of money and that, until it's all spent down to the last dollar, then it can be spent.

So as an illustration, we have often people saying, "Well, I haven't spent my budget this year, so can I carry out for the next year?" That's my reaction, too. But it's a frequent misconception to think the budget is just that pot of money that's there until you use it and once it's all been used, there's nothing left. So the budget is an estimate. It's a projection of what things may be in the future.

It is also, therefore, time-defined. When you project at a point in time what the future will look like, if you do the same exercise a week later, you'll have a different perspective. You'll have different information, and your estimate will therefore be different.

So the budget is not a bucket of money. It is an estimate of future financial impacts of an action plan.

Having said that, of course, from a governance standpoint and for also practical purposes, when we talk about the notion of budget at ICANN, we also talk about the fact that we create a set of action plans, which is what Becky just described as the

operating plan, and we associate with it the financial quantification of that action plan. Then it gets approved by the Board and it remains as such, because it's been approved by the Board, for a year.
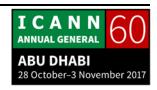
But after the budget has been approved by the Board, as we go through the fiscal year, we produce updates to that action plan and we produce updates to the estimates. We simply then call them forecasts rather than budgets.

I don't know if there's any questions or thoughts on the topic, but please feel free if you have any.

And I'll take a pause to acknowledge the presence of our Vice-Chair of the Finance Committee of the Board and another member of the committee, of the Board. Ron and Lousewies are current members of Finance Committee of the Board, and this finance committee is the one that oversees the process from a Board standpoint and provides oversight and advice and reviews to help us conduct our budget process. Thank you for your presence. Sarah is also an incoming Board member who's granting us with her presence. Thank you for coming.

BECKY NASH: On this next slide, we're covering how ICANN obtains its funds or how it's funded. All of the figures in this presentation are from
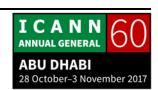
the FY18 budget. We do have the FY18 operating plan and budget published on our website.

Just using this for an illustrative purpose, this is how ICANN is funded. The FY18 budget has funding, sometimes known as revenue, of $142.8 million. As you can see, we have split this out into various components.

The largest component of our funding for ICANN comes from the number of domain name annual registrations resulting in transaction fees. So the transactions from registries and registrars are one of the largest components of the revenue, which is $94.2 million. It's not showing here on the slide, so we apologize for that. But $94.2 million of the $142.8 million comes from transactions fees from registries and registrars.

When we look at that figure, we discuss a blended or average rate of .43 cents for domain name registrations. So that would be the annual number of registrations and the blended rate of .43 cents in aggregate, split between the registries and the registrars.

The next main driver, as there are two main drivers, is the fixed fees. The fixed fees on this pie chart is the $44.9 million, and those are fixed fees from the annual contracts for registries and registrars. That is all dependent on the number of parties under

contract with ICANN, and it drives approximately 31% of the overall annual funding.

The next component that is outlined here is Other. "Other" represents primarily the voluntary contributions from the ccTLDs, which is approximately in the FY18 budget $2.1 million. As you can see, that's the largest component of that $3.7 million. The next largest component is the contribution from the RIRs. So we have an annual contribution of $823,000, which is also classified as Other. The balance of that $3.7 million comes from sponsorships that are also included in that number.

The importance for understanding the funding is that that's the funds that are available then for ICANN to allocate as part of its budget process. We'll be talking about that through this presentation.

The next agenda item is understanding the planning process. Who decides what goes into the plan? The ICANN organization proposes what work will be done for the upcoming next fiscal year that is being planned for and composes a draft operating plan and budget based on funding projections. Again, that's a key note that we do base it on the available funds that come from the funding projections.

The next key decision maker is the community. As Jessica had indicated in the introduction, we interact with the community

during every stage of the planning process, and that is part of our Bylaws. We have both engagement as it relates to webinars, on the timeline, and on the process. Of course, we do have a formal process, which is called the public comment period, where we ask the community members to review and comment on the draft plan. It is a draft plan because we have not yet submitted it for adoption in order to get feedback from the community during that stage of public comment.

The public comment period is normally about 45 days. Just to give an idea: during the FY18 operating plan and budget, we received well over 150 public comments on the FY18 operating plan and budget.

The next key body that then has decision making powers is the Board. The Board considers community input, and then the Board does approve the final budget for adoption.

How is the plan structured? There are two key components in the planning process. The first, outlined on the left on this slide, is the strategic plan. The strategic plan is organized with five objectives, which are the core foundational strategies upon which goals are based. And the strategic plan has 16 goals. These are the desired deliverables to meet the organization-wide objectives.

On the right-hand side, we have the operating plan and budget. As you can see on this slide, the operating plan and budget is organized by 60 portfolios. A portfolio is reflecting cross-functional work undertaken in support of a goal to fulfill the core deliverables and services. Supporting the portfolios, we have over 300 projects listed in the FY18 budget. The projects are temporary endeavors with a defined beginning and a set end, with specific deliverables. ICANN is then organized by these individual projects.

On this next slide, we have an overview of how ICANN's funding is spent. In the previous slides, we talked about the funds or the funding for ICANN. On this slide, we're talking about how the funds are then allocated for expenditures.

We've outlined here the key components that you can see in our planning documents in the FY18 budget. We have personnel. Personnel represents the costs for people and resources. That would be the head count or the people and the employee benefits in fringe. So those would be all the costs associated with people and headcount. As you can see on this slide, we have personnel, which represents 49% of the annual FY18 budget.

The next key category is professional services. The professional services represent approximately 19% of the annual budget of

$142.8 million, so that's approximately $28 million. Professional services are the different kinds of costs that support the projects and portfolios that are part of the budget. Some of the examples there are items that are spent in cooperation with the community, like the reviews. So there would be costs for professional services as it relates to the independent audits or the reviewers for the reviewers. Then there are other types of key auditing and other types of costs as it relates to professional services.

The next key component that you see reported in our financials and in the budget is administration costs. Under the category of administration costs, we have several types of costs, including the rent. That would be all sorts of facility costs for our locations. It also includes our security, both our physical and our meetings security costs. Other key components there are software licenses and other types of IT subscriptions. So that's what makes up administration costs, which represents approximately 13% of the annual budget.

The next category we've listed here is travel and meetings. Travel and meetings from the FY18 budget is approximately 12%. These are the costs related to the travel and the meeting logistics for the ICANN meetings and other types of meetings that are regional meetings. We also have the SO-and AC-funded

travelers, which is also a cost in the travel and meetings category.

The last category that's listed here is what's called capital. Capital is a component of several of our key initiatives. If we have a key project, such as in FY17 – we had an ERP implementation – that project will have both expenses potentially related to personnel or professional services and then also capital expenditures. That's just an accounting term where you're able to capitalize certain expenses of a project. Normally the capital we have listed here would only be a component of a key initiative.

I'm just going to pause to see if there are any questions here on our expenditures.

Yes, Ron?

RON DA SILVA: Ron Da Silva, ICANN Board. I wonder if you can comment a little bit about what it would take to – I've heard this question before so I'm just echoing it from the past – add in other representation of the budget breakdown, say by project or even by, say, just GDD versus GSE – the different departments – and then have that overlaid with these kind of functions within those. I know it's been brought up before and I realize there's some additional

data that needs to be put into the accounting practices to be able to do that, but maybe you can comment on where that is and feasibility.

BECKY NASH: Thank you. We always like to hear what people like to see as part of the operating plan and budget documents. We do provide several supplemental schedules in the operating plan and budget set of deliverables. One of them is actually the budget by project and by cost category. When we say "cost category," it is these five labels that we're talking about, which are basically the summary. As part of our operating plan and budget deliverables, we do have a list in both PDF and in Excel for community members which does provide the costs by project. We provided that in response to many community members asking for that level of detail. It is presented as a separate attachment but can be found on our planning page for all our fiscal operating plans and budgets.

The second part of your question was about the budget by function or by groups of activities or departments, I believe. We do provide a summary page in the operating plan and budget document that does provide the plan by function or by what we may call a grouping of departments that are led by an executive team member. That is provided. It provided the headcount and

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the expenditures in summary, but it doesn't provide it by project. The reason why we don't provide that particular view by project is that most of our projects are cross-functional across multiple departments. So we use our "by project" to summarize it by just the project number or the key indicator, called the project number, and then another schedule that does provide it by what would be the function or the department.

I'll just pause to see if there are any more comments or questions along this line.

Okay. In this next section, we wanted to go through understanding the budget documents. What documents do we share as part of our planning process? On the left-hand side, we have a summary of the PTI and IANA budget documents. As part of the creation of PTI and the IANA stewardship transition, there is a requirement for PTI, which is an affiliate or a separate legal entity from ICANN, to prepare an operating plan and budget annually. Along with that, because ICANN is still the IANA function's operator, ICANN then also submits what's called the IANA budget. These are two separate documents that are created, and each are posted for public comment much earlier than the ICANN total or the consolidated ICANN operating plan and budget.
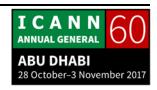
The reason for that is that PTI itself, as a separate legal entity, has a separate Board that will adopt the PTI operating plan and budget. Once the operating plan and budget is prepared, it is submitted to ICANN, which is the affiliate sole member, also known as a parent company in some cases, that then receives the PTI budget as input for what's called the IANA budget.

One of the primary reasons that there is a separate IANA operating plan and budget from ICANN is that this is one of the documents that has new Bylaws as it relates to community powers and Empowered Community process. Each of those documents are submitted for public comment separately, although they're posted at the same time during this most recent cycle called the FY19 planning process.

On the right-hand side of this slide, we have the ICANN deliverables in the planning process. We have an ICANN operating plan and budget, which is the fiscal year operating plan and budget. We also have a five-year operating plan update, which is done each year. That is an update to the five-year operating plan, which was provided at the time of the strategic plan.

The next key set of documents that we have is the by-project and by-portfolio spreadsheets or reports. Again, that takes the

top document of the operating plan and budget and it provides a complete view of the annual budget by project.

What we wanted to provide here is a view of what all of these documents mean when they're taken together. So what do all these charts and graphs actually mean? The structure starts at a high level and gets more detailed in several layers. Starting at the top, we have the five-year strategic plan. Currently, ICANN is operating under a five-year strategic plan with the goals and objectives that covers the years of FY16 through FY20. So that strategic plan was set in advance and covers five years.

The next layer down from that: after the strategic plan was established, a five-year operating plan was established, and that's at the portfolio level. Again, as we discussed earlier, an operating plan is how we execute items that we've set as objectives of a strategic plan. Again, each year ICANN is required to do a five-year operating plan update. That is a document that is part of the annual cycle.

The last document is the annual operating plan and budget, which again is at a portfolio and by-project level. That is for the fiscal year or the twelve months covering our fiscal year for both an operating plan and a budget.

This slide shows how it's cascading from a strategic plan to an operating plan to a budget. You have the lowest level of detail in the annual budget.

On this next slide, we wanted to just talk about the difference between a strategic plan and an operating plan. A strategic plan, at the highest level in an organization, is the what. What does an organization plan to do to carry out its mission? Again, currently ICANN is operating under the five-year strategic plan covering the years FY16 through FY20.

Just a note at the bottom of this slide: the development of the next five-year operating plan is in its planning stages right now, and that will be starting during FY18 and FY19 in order to have a strategic plan approved well in advance of the effective period of FY20.

Yes, Xavier?

XAVIER CALVEZ: Thank you. Just a quick additional comment. Depending upon your experience in other organizations, the strategic plan may be inclusive of both components that we see here. What we have called the strategic plan at ICANN has been the outcome of a community-based process to develop the 5 objectives of the organization and the 16 goals that are mapping to these 5
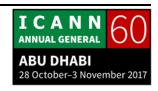
objectives. But in many other organizations, the strategic plans also contain the how of the operating plan, the roadmap of actions plans throughout the period, that support how these objectives will be included. In most organizations, you also have the quantification of the resource requirements to achieve those objectives. So you have the objectives, the action plans, and the cost of the action plans all together. That's quite standard, quite natural.

In the past iteration of the development of the strategic plan at ICANN – that plan only contained the 5 objectives and the 16 goals. So we then developed a second document that contained the operating plan over the same period of time to document what would be carried out in order to achieve those objectives that are in the strategic plan.

The part that we never developed in 2014 and '15 – at the time, this current strategic plan was created – the part that we never produced was the resource requirement and the dollar quantification of those resource requirements that supported that plan.

The reason I'm illustrating that is because this is obviously something we want to be able to change at the next iteration of the strategic plan development, which Becky indicated is going to start soon, where we want to have a comprehensive set of

information being produced as part of this strategic plan and also allowing to formulate priorities for the ICANN organization. Thank you.

BECKY NASH: Thank you, Xavier. On the right-hand side, we are talking about the operating plan. Again, just to reiterate what Xavier said, that is the how. How will ICANN carry out the strategic plan and how much will it cost?

These are two different, distinct documents here at ICANN that are part of our planning process.

We are now going to cover some of the basic data points that are provided in our planning documents in the fiscal operating plan and budget. You can also see many of these reported on our quarterly stakeholder call and other financial reports that are available when reviewing actuals versus the budget as well.

At the top of this chart, one of our key objectives in the planning process is that our budget is balanced each year. In the beginning of this presentation, we talked about the components of our funding, where, for FY18, the total is $142.8 million. Then we talked a little bit about our expenditures or our expense categories, which are also for the same amount of $142.8 million. That results in a balanced budget. As a non-profit, ICANN

is required to have this balanced budget. This is a very key component of our annual planning process.

Another basic data point that we provide in the planning documents is the average headcount for ICANN. In our operating plan and budget, we do show some trends over time about headcount. We take the average headcount. That's a little bit different than the ending headcount. We do define this in our documents because it's important to understand when we're talking about a budget and the dollars or the amount of money to talk about the average headcount throughout the period because then that's going to relate to the personnel costs that you will see for the plan.

In our operating plan and budget, we define all of the terms that we use, where we have average, we have full-time equivalent, and we also have end-of-period, which are all ways of looking at headcount, which tell us how many people work at the ICANN org.

The next key data point that is presented in our planning documents is our funds under management. For the fiscal year ending in FY18, based on the annual operating plan and budget, the estimated ending balance in our funds under management is $443 million. What that is is talking about the different types of funds or investments that we have which are comprised of cash,

which would be our operating fund, where we would have our spend or expenditures deducted from for day-to-day expenses, and then our reserve fund, which is our investment, often called a rainy day fund or a fund put away for unexpected expenditures over time. That's for reserving in case money is needed for a particular reason, but it's not to be used for day-to-day.

We have two other key funds under management, which is the New gTLD funds. That relates to the amount of funds remaining from the New gTLD Program as it pertains to the application fees that were collected up front and is used for the annual expenditures for that program, which is still ongoing as it relates to finalizing the New gTLD Program.

The last fund that's listed here is the auction proceeds. As part of the New gTLD Program, there were auctions that were held, and funds were received by ICANN. They are kept in a separate fund called the Auction Proceeds.

Yes? Question?

XAVIER CALVEZ: Just to reemphasize something that Becky just said factually, but on face value, $443 million looks like a very big amount, which it is, and I think it's important to understand that a bit less than $100 million of that are the funds that ICANN has on an

ongoing basis between the operating fund, which is the day-to-day cash, and the reserve fund, which is the cash put away.

The rest of the funds – the $340 million or so that are left – are funds generated by one single program, which has a beginning and an end. The end is slow to come with the New gTLD Program, but most of the work of the evaluation of the applications has happened. We have only 30 or 40 applications left to pursue evaluation on. But there's also more work relative to the program in relation to potential legal actions or reconsideration processes that are currently in progress and prevent us from closing fully the program.

The auction proceeds, as Becky explained, are really a completely "isolated" source of funds that result from the New gTLD Program as well. None of those two sources of funds do we use for ongoing operations. They're fully segregated. When these funds will be disposed of, ICANN will be left with its ongoing cash on one hand in the operating fund and the reserve fund for rainy days. Those funds, again, are a bit less than $100 million out of the $443 million that is there. It's important to understand. Thank you.

BECKY NASH: Thank you, Xavier. I just wanted to highlight at the bottom of the slide here that we are indicating that these figures are part of the

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fiscal year 2018 budget. We do have more information on tracking these key statistics at the ICANN.org accountability indicators. So that is a key process that we use for measurement – the accountability indicators – and you will see references to funding, expenses, and also funds under management and headcount on that website.

In this next section, we're going to talk about participation essentials. On this slide, we wanted to give an overview of the timing of when the community members can participate. Overall in our timing for our planning process, we start with an August timeframe for a kickoff, including webinars, on our process and timeline. So it's very key to get participation from all members in the community and give us feedback on the timeline and the process that we plan to follow for the annual planning process.

Yes?

XAVIER CALVEZ: Sorry to interrupt, Becky. For everyone, in case you wouldn't know, ICANN's fiscal year goes from July of one year to June of the next. So FY fiscal year '18 for ICANN means that it has started in July 2017 and will finish in June 2018. The timeframe that is shown here shows that, basically, at the latest in August of any given year, we start planning for the fiscal year that will effectively start in the next July. So in August 2017 we started

planning for our fiscal year '19, which starts in July of 2018 and finishes in June 1019.

BECKY NASH: Thank you, Xavier. Yes, it's very important that we highlight that the process is started well in advance. Again, the objective of this slide is to really talk about opportunities for community members to participate throughout the year.

Again, our kickoff starts in August, where we formally ask for feedback on the process for planning and the timeline. In the October and November timeframe, we have the PTI and IANA budget public comment period, and that coincides with the annual general meeting of ICANN. Again, the PTI and IANA operating plan and budget documents are all posted for public comment as we speak today. That public comment period ends on 26 November. Again, that is a key are where we request participation.

In the January/February timeframe, we have the ICANN public comment period that is scheduled for mid-January right now. Again, the public comment period runs for approximately 45 days. We do request comments from community members. Last year, as I indicated for the FY18 document, we received approximately 150 public comments.

After that timeframe of the closure of the public comment period, the ICANN org staff then prepares responses that are then available for publication prior to the next step, which would be seeking a final budget and submitting that for adoption.

The next timeframe that's listed here is the March timeframe, where we have the ICANN community forum/meeting and other opportunities for engagement, either via webinar or at the meeting because that is still prior to the final budget being submitted to the Board of ICANN for adoption.

We just wanted to highlight that, with the new timing based on the Bylaws, our budget adoption is anticipated to be by the end of May, and that is one month earlier than what we've done in the past, in part because of the new Bylaws providing for the Empowered Community review. What that means is that, after the ICANN Board adopts the fiscal year operating plan and budget, there is a 28-day period in which there are steps for the Empowered Community to have a review and/or escalate items out of the budget. If that process takes place, they could invoke a power to veto certain aspects of a budget, and that means that the budget will not go into effect. We do have something called a caretaker budget that would be adopted under those circumstances. In our annual operating plan and budget, we do provide a definition of a caretaker budget as well.

One thing that I'd just like to highlight is that, right after this June timeframe, we're already underway for the following year's planning process. So one cycle ends with adoption, but we're already underway, where we would like to do engagement on what we call lessons learned, like looking at the past year and seeing how well we did on the process. Is there anything that we can change? Are there any more areas for engagement? Can we change the timeline? So, again, it's basically rolling twelve months' activity for planning, and there are lots of opportunities to participate at each stage in the process.

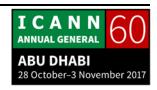Are there any questions on the planning timeline or process?

Yes, please announce your name.

ARJAN MIDDELKOOP: Hello. I'm Arjan Middelkoop, SIDN, the Netherlands. Two questions about your process just because I wondered. You've got the 16 goals and 5 objectives. Who decides upon them? Who determines the goals? And how do you evaluate the achievements of the goals? Do you monitor it via dashboard or something?

XAVIER CALVEZ: Thank you for that question. The 5 objectives and the 16 goals were determined during the community-based process in 2014

and 2015, where the various community organizations worked together, basically – and helped of course by the ICANN organization – to produce those 5 objectives and 16 goals. It took about a year-and-a-half – this process – between inception and Board approval. But it's really the community who put together those five objectives.

Of course, there was a starting point, which was the previous five-year strategic plan, but these 5 objectives and 16 goals are the result of a lot of community discussions, facilitated by the ICANN organization. Then it ended up being approved by the Board of the strategic plan.

Relative to how we monitor achievement, the five-year operating plan update that supports the roadmap of activities across the five years for each of these objectives – every year we update that five-year plan. We provide an update on where we are against that five-year roadmap. This is objective by objective, goal by goal, down to the portfolio level. Imagine a document where you have all the 60 or so portfolios that then aggregate into the 16 goals and the 5 objectives and then across – you have the five years. And we provide an update as to what happened last year versus the plan and where we are now and what we are expecting the next year's to be.

So that's one type of monitoring and update, and that is public, of course.

The second is what Becky was mentioning earlier: the accountability indicators. We used to call this the ICANN Dashboard. That's a set of key performance indicators – these accountability indicators – that are updated on a monthly basis and published on our website. That measure across all the activities of ICANN the progress of those various aggregates that are measured by those accountability indicators.

As an example, Goal 3.3 – Objective #3 and the third goal within that objective – contains an indicator about how much expenses we have versus our budget or how much funding we have versus our budget.

The third one is the percentage of our actual reserve fund balance versus the target reserve fund balance. So we have a certain amount fund right now – $16-something million in the reserve fund – and the target of the reserve fund is another amount, which is $142 million in this case, because it is twelve months of operating expenses. So we show the percentage of actual funds versus its target. That's another indicator.

There are indicators across all the activities of ICANN. The Stakeholder Engagement Team provides indicators about the number of participants in various regions. Our HR department
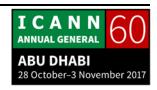
provides the number of people at the end of the previous month, and so on and so on.

BECKY NASH: Thank you, Xavier. On this next slide, we wanted to talk a little bit about participation. Someone new to the budgeting process might ask, "Are there conditions or restrictions to participation?" We just wanted to highlight that the purpose of this session today was to really talk about the fact that there are no conditions or restrictions to participate. There's no prior knowledge required, just a desire to participate in the operating plan and budget cycle. So no previous experience, no financial background, and in some cases, it's really important that it's not just people with financial backgrounds that are commenting on how ICANN should spend the funding that it receives. We just want to stress that anyone can participate.

On the left-hand side of this slide, we are showing our Draft PTI and IANA FY19 Operating Plans and Budgets public comment page. This just gives a little snapshot of the fact that it is open for public comment right now and that we do encourage everyone in attendance to go and review the operating plans and budgets.

On the next slide, we'll talk a little bit about how you can participate and how easy it is to make comments.

Yes?

XAVIER CALVEZ: While we're going to the next slide, also under public comment right now until the end of November is a document that describes our reserve fund, what the rationale is for the reserve fund, and what the target level is for the reserve fund. I mentioned earlier that is currently twelve months of operating expenses. There is currently a document that has updated the rationale for the reserve fund and an analysis as to what the target level of the reserve fund should be. It's currently under public comment, and we are looking forward to extensive comments from the community on that document as well. Thank you.

BECKY NASH: Thank you, Xavier. On this next slide, we have a list of items that each of us can provide input on. The first one is the projects that are listed in the operating plan and budget. As part of the public comment process, a community member can identify whether or not they think a certain project should receive more or less funds and provide a comment on that.

The second area that you could provide input on would be new activities. That means: are there are areas of spend or work that

ICANN isn't currently doing and you would like ICANN to? Or maybe we have a new initiative or something being budgeted for that you'd like to provide more input on on the activity overall.

For the measurements of our operating plan and budget, it's our accountability indicators, which we've been talking about. We do encourage community members to provide feedback on: are these the indicators that we should be contemplating? Is it accurately going to help us measure our operating plan and budget and also measurement throughout the year?

The last area is phasing. What phasing means is the timing of the expenditure. Is it something that's starting earlier in the year, or is it something that's being pushed out in the fiscal year and/or out of the entire year and planned for the following year? So this is another key area for input because something that is of a higher priority maybe should be done earlier than something that's of a lower priority.

Again, these are just some ideas for budget basics on how each of us can review the components that are in the operating plan and budget.

Yes, Xavier? Would you like to make a comment?

XAVIER CALVEZ: Just that, of course, the public comment can receive any comments. It's not directed, but certainly those comments are obviously helpful on the substance and content of the budget so that we receive input from the community as to whether the plan is adequate and contains what the community thinks it should. That's the fundamental rationale of that public comment.

In addition to that, of course we are very much welcoming comments on the format of the information that we provide? Is it adequate, not adequate, not sufficient, detailed, too detailed, not enough? So that type of information is also extremely helpful and contributes to the public comment that we can then receive. Thank you.

BECKY NASH: Thank you. We now want to talk about: how can I get started? On this slide, we have several action that we encourage for participation. The first item: attend the Budget Working Group or finance-related sessions at the ICANN meetings. We'd like to highlight that we are having a Budget Working Group session coming up on the 1 November at 10:30 A.M. We encourage everyone in attendance to come to that Budget Working Group session, which goes into more information about the

development of the current process, which is the FY19 planning process.

The next thing is to find and participate in the ICANN community group. This is just a recommendation of identifying which community you can participate in to foster the budget development process and perhaps prepare formal comments for public comment on a collaborative basis with other community members.

The next recommendation is to subscribe to the community-finance@icann.org e-mail list. This is an e-mail list that we send out with regular updates on all of our planning activities. We do encourage each of you in attendance today to sign in on our sign-in sheet and indicate if you'd like to be added to the mailing list. That way, you can then receive updates on all of the planning activities throughout the year.

The next recommendation is to go and view the current year plans for reference online. I know that some of the documents are a little bit lengthy, but we do encourage that you take the time to download and/or view it online and really to go through the table of contents and go through all of the sections. That way, you will be better prepared to provide feedback on whether or not the operating plan and budget or the five-year operating

plan update document provide the information that you want to see as part of this planning process.

The next item is, again, to review the plans that are available for public comment. We've talked a little bit about the time for public comment. It's currently for the PTI operating plan and budget for FY19, the FY19 IANA budget. Again, in mid-January we will have the total ICANN operating plan and budget available for public comment.
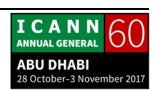
I do suggest that you could go look at prior years' staff response to public comments as well. That way, you can get an idea of what the responses are like and what kinds of questions come in. So you can look at samples from prior years as well.

The last item here is to work with your group or submit your own comments. You can submit, with your personal name, comments, or you can work within one of the ICANN community groups and collaborate on public comments. This just gives you an idea of several ways that you can get started now.

Yes, Xavier?

XAVIER CALVEZ: What we have not said is that, by participating and entering this room, you've been automatically volunteered for producing comments over the next budget process.

BECKY NASH: This is actually the last slide that we're presenting. We now have a question and answer period, where we would ask for feedback on the budget basics presentation that we've provided. We look forward to your comments.
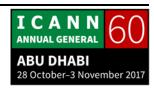
RICARDO HOLMQUIST: This is a small question. This is Ricardo Holmquist, incoming ALAC. The budget – the $142 million – was for the year that is now. It's FY18. So the money – $433 million – that you have in hand is because you already produced the money for this year, as I understand. Or you're producing the money to pay this year's accounts.

This $142 million includes the IANA and the PTI, but it's not separated because you say travel, people, and other things, but it's not separated between PTI, IANA, and ICANN.

XAVIER CALVEZ: We were nodding but that's not going to be recorded on remote participation, so, yes, you are correct. This number is for the current fiscal year, FY18, that started in July and finishes next June. And, yes, it includes the PTI and IANA funding, which is about $10 million within that $142 million.

The breakout that we provided earlier was by type of expenses, not necessarily by purpose. If we would provide a breakout of that same amount by the various components of the organization or departments of the organization, we would be able to show the PTI/IANA costs that are included in that. You're right – it's included in that.

RON DA SILVA: Also, the question in there was about the revenues to support that budget. Those aren't revenues that are collected ahead. They're collected throughout the fiscal year as well.

XAVIER CALVEZ: Correct. The funding of ICANN is resulting from the fees that we collect from registries and registrars, either driven by the number of domain name registrations or by the fixed fees. We have a billing cycle that is mainly quarterly, so at the end of each quarter, we collect information from the registries and registrars. It lets us be able to bill them for fees that they owe to ICANN as per their contract. So we collect the funding of ICANN on an ongoing basis, all the time. It's not collected all upfront in the fiscal year and then spent through the rest of the year. It's collected on an ongoing basis. Thank you, Ron, for…

RON DA SILVA:	I was going to say sorry. I forget to identify who I am. Ron da Silva, ICANN Board, Vice-Chair of the Finance Committee, incoming Chair of the Finance Committee.
RICARDO HOLMQUIST:	Sorry. I had a misunderstanding of the $443 million that you have on hand, and how it was divided. According to you, was part of the operating money, so I understand it's most of it is collected. That's why. Sorry.
XAVIER CALVEZ:	Any other questions or comments? Do we have anyone on remote participation?
UNIDENTIFIED MALE:	Yeah.
XAVIER CALVEZ:	Please.
UNIDENTIFIED MALE:	[inaudible] from the Spain, .cat and .barcelona registry. I would like to know if you can explain a little more what the profile is of personnel and people in ICANN because the personnel is the result of the mission of the company at the end of the day. So

the personnel are more developers or more dedicated to marketing? Or if you can more or less explain if there is a technical profile or a business profile or whatever. Thank you.

XAVIER CALVEZ: Thank you. In order to try to give an answer to your question, let us pull the information that we actually have in our budget documents, or the one that's on the website, that provides the breakout of the personnel by the functions. So it's not necessarily giving exactly the answer to your question in the sense of what type of qualifications people have, but we'll be able to tell you how many people are in IT, for example, or how many people are in engagement or policy development. Our budget contains a schedule that provides the breakout of the 400 or so people by function, along with a dollar value or the amount of expenses associated with each of those functions. That's what we were explaining when Ron asked the question earlier.

Becky is pulling that information and I'll read from it a couple examples to give you a sense of what there is. Again, that's on the website for the budget.

If you take, for example, the resources that support the GDD division, the contracted parties support, within the organization, that's approximately 53 people.

Another example is the policy development support, so all the people who help every SO and AC to produce their policy development activities is the policy Secretariat and [so on,] people that I'm sure you see all the time. That group is, from memory, in total is 35 people out of the 400.

What example am I going to take? Well, I was going to say that the Engagement Team and the Meetings Team that also work very closely with the Engagement Team and the Public Responsibility Team – all those three teams aggregated together represent nearly 50 people. I think that the Engagement Team solely represents approximately 35 people across the world, as an example.

I'll be selfish. For the finance department, we have 17 people, and we do payroll, billing, accounting, and so on.

So that gives you an illustration. Again, I'm reading from a document that's on our website within our FY18-approved budget. That's a document that you can consult very easily. Thank you.

LAWRENCE OLAWALE-ROBERTS: My name is Lawrence, a member of the BC. Sorry if my question had been addressed earlier on before I joined the meeting. I know that the current budget we're running, which is
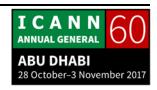
for FY18, was prepared before the financial year started. That could also imply that the current concerns with regards to [GDPR] to a large extent will not have been taken care of in the course of designing and coming up with the budget. Now that it's an issue which I believe will also attract some costs in terms of the direction that ICANN will have to go in resolving this, how are such issues taken care of in the budget. Is this pulled out from the reserve funds, or is there a fund that is used to mitigate issues like this?

XAVIER CALVEZ: Very good question. Thank you very much. The budget every year, for the purpose of being able to fund activities that we just don't know at the time we finalize the budget – every year we have in the budget what we call a contingency. So it's not a separate fund. It is the amount of budgeted expenses that is simply not allocated to any specific activity.

In the $142.8 million, for example, if you would go in the budget document, you would see that there's approximately $5 million that is unallocated to any specific function or activity. That is aimed at covering, for example, the expenses of activities like GDPR. As we are now working through the GDPR evaluation and analysis – for example, you probably know about the Hamilton report that has been produced – the expenses corresponding to

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those activities will be funded from the contingency because we didn't plan for them before. That's the mechanism.

Any other questions or comments?

[ALEXANDER ZO]:   Hello. Thank you for a very detailed presentation regarding the budget process of the Internet Corporation.

UNIDENTIFIED MALE: [inaudible] name.

[ALEXANDER ZO]:   My name is Alexander [Zo]. I'm from Ukraine. I participate in this meeting as a GAC member. I might have missed this important part, but you probably gave a slide on the [inaudible] reserve or the [inaudible] fund of ICANN, which goes from the New gTLD Program, right? Yeah. Are there any updates on the usage of this fund, or is it being kept in a very conservative way?

And are there any developments in fancy stuff, like empowering the community and maybe invested in some small but innovation projects in the Internet industry? Is there investing in some project competition or hack-a-thons and other stuff? It could give a huge added value to engagement also. It will attract the technical community and young people who are likeminded

who could develop awesome prototypes of projects that could be implemented and developed as a daily operation of ICANN, probably, or some ISP or registrars.

So there are two questions on the [inaudible] Fund and on the innovation initiatives inside ICANN, if there are any. Thank you.

XAVIER CALVEZ: Thank you very much. First, a clarification. Just to make sure I've understood correctly, you've mentioned the reserve fund and you've mentioned the New gTLD Program funds. I simply want to clarify for everyone that the reserve fund of ICANN has not been funded from the New gTLD Program. The New gTLD Program led us to collect application fees from the applicants, and the funds collected through that process are completely segregated from our operations and do not go into the reserve fund of ICANN. They are included in the $442 million that I mentioned earlier, but it's a separate component from the reserve fund of ICANN.

Currently, our most recent estimate is that the evaluation work of the program, once completed at the end of the program, would leave us with an amount of funds approximately of $90 million, which are funds that we will be using to cover for any defense costs associated with a program or any other risk costs associated with a program. That's how the program was

designed and how the fee was designed at the outset of the program.

What we don't know is whether we will have any of those funds left because, as you know, the program was designed to be cost recovery but was designed a very long time ago and incorporated an amount of fees in the application fees to cover for potential risks or potential legal defense costs.

Even though most of the TLDs have been delegated, there are still a few TLDs that have not because they are currently under process. We have a number of reconsideration processes in progress. We have a number of lawsuits in progress on the program or on specific applications of the program. Many of you are familiar with the fact that we collected, for example, $135 million on an auction for .web. That auction is currently under the subject of a lawsuit.

So there's a lot of activity still going on on the program that is funded when ICANN incurs expenses for those activities. They're funded from that remaining $90 million that I mentioned.

Will there be money left at the end of the program out of that amount of money? We don't know. When will we know? We don't know either. So these are the challenges. As an illustration, previous to this round of new gTLDs, the last TLD that was delegated, which was .xxx – the evaluation was done in 2003. We

had still a lawsuit going on relative to that TLD nine years after. So it's very difficult to predict when the program is effectively going to be done and, if there are any funds left, when we will know that.

If there would be funds left, what would we do with them? That will have to be a process that I'm sure will need to involve some community input as to what we should do with those funds. Then the Board will consider that input to then make decisions about it. But for now, it's speculations and just projections because we don't know yet if there would be money left or how much money there would be left. Nor do we know when the program will be done.

I think we have a comment from Marilyn.

Sorry, Marilyn. Just before you go, I just want to finish on the point of what we could do with that money.

[ALEXANDER ZO]:   You described the whole issue with the new gTLD fund, but there is an issue with the operation fund and about expenses of ICANN on some innovation projects funds.

XAVIER CALVEZ: This is exactly the type of comments that you should put through a public comment process on the budget because you're basically proposing ideas about other activities that are not necessarily carried out by ICANN now that could be the purpose of using some of the funds of ICANN to do. So I think that's exactly the type of input that you should provide as part of the public comments.

What we do then is we respond to those comments in writing, also for the entire community to be able to comment upon.

Marilyn?

MARILYN CADE: Thank you. I'm just going to make a couple of comments because I've been involved in the budget process at ICANN even before our present team was here.

I have two comments to make. One is that there's a lot of history behind some of the decisions that were made. I think, Xavier, you gave some facts about certain amounts of money being allocated or how we treat certain things. There has always been open public consultation. So the community has actually provided the guidance that underpins much of how we have decided to do these things. I think that's really important to know if you're new to this Budget Working Group.

The second thing I just wanted to suggest is, if you're not participating as an observer or a participant in the CCWG, the Cross-Community Working Group on auction proceeds, and you have an interest in the issues of how new kinds of activities that are related to ICANN's mission can be funded, that work is ongoing. I signed up as a participant only five meetings ago, and I already have a 30% attendance record. But I do encourage you to think about signing up to that, even as an observer. Then you can keep track of that because it's difficult to use ICANN's core budget for this. Part of that is because, going back to my comment about public consultation, there's very strong input from many parts of the community that are very clear with their views that the core value not engage in field trips – sorry – but that it stick very close to the core mission.

I thought it might be helpful to just say that, Xavier, so it doesn't appear that it's the Board or the staff that's making that decision. Thanks.

XAVIER CALVEZ: Thank you very much, Marilyn. That was helpful. We're coming to the end of the session, but we have another minute or two for any additional questions, if there would be any.

[JESSICA CASTILLO]: Okay. Thank you very much, everyone, for joining us today. Again, the session was recorded, so it will be posted on the ICANN meetings schedule webpage within a day or so. If you did sign up on our sign-in sheet, we'll add you to our community finance e-mail list, and that's where you'll get updates when we share information and steps of the process. Also, once we get the link for the recording, we'll circulate that as well.

If you have any other questions, please feel free to e-mail us at the e-mail address that's on this screen: planning@ICANN.org. Remember that there are the open public comments currently on the reserve fund and PTI and the IANA operating plan and budget. That one closes November 26, so get your comments in.

Thank you again, everyone. Have a good afternoon and evening.

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ICANN 60
ANNUAL GENERAL
ABU DHABI
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