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SINGAPORE – ICANN Finance Open Session  
Wednesday, March 26<sup>th</sup> 2014 – 13:30 to 15:00  
ICANN – Singapore, Singapore

XAVIER CALVEZ:

Now you see all my applications and [hopefully] there's a way to present so that the bottom does not appear to do with that, I guess. I'm glad I didn't put a financial statement because it's going to be hard to see.

We're going to start. Thank you for participating. As you may have noticed on the schedule, we will have another session of the same meeting, same agenda, exact same content tomorrow morning at 9:00 a.m. to try to address the fact that there are a number of conflicts happening this afternoon for this session and apparently we are not visible to everyone. So we have duplicated this session. If everybody does that on the schedule, we're going to have big problems because we're then going to have 500 sessions and a lot more conflicts. This is just an exception to the process so that we can accommodate a number of participants who intended to participate this afternoon but would not have been able to, just for information.

We are recorded. We're scribed – we're not scribed, okay. We're recorded. Thank you, come in. What I suggest we do is that we go through the various slides that are part of this presentation and go through the agenda. I would suggest that if you have questions that you write them down or make a small note of them and we will ensure that we have an extensive Q&A period after the end of the presentation and

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we will make sure we keep a lot of time for Q&A. The presentation is not very long and let's start.

I guess that was the introduction, as well. We will look at an update on the planning process and where we are in this planning process right now. We will have a quick overview of the future state of the operating plan and budget planning. It's a very high overview but that will let us lay out, also, a few thoughts on where we need to move forward in terms of planning process in the future.

We will more specifically look at the structure of the content of the operating plan and budget that will be submitted for public comment on April 24<sup>th</sup>. We will also provide an update the financial reporting of ICANN. It's a little bit of an advertising session. I want to make sure that everyone, at least in this room, that we are publishing quarterly financial statements on our website and have started that with this fiscal year 14. Thank you.

With the size of the screen, which I didn't anticipate, Linda can you read everything please? Okay. I'll comment quickly on this.

We're in Singapore, end of March. We have developed an overall framework of the operating plan and we will have an overview of that in a few minutes. We have developed an overall framework of the operating plan. The full extent of this operating plan will be included in the materials that will be submitted for public comments starting end of April. We are therefore towards the end of the process of putting together the framework in the draft budget. You can see one-third from the bottom, approximately there between the 16<sup>th</sup> and the 17<sup>th</sup> of April



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is when the Finance Committee of the Board will be reviewing the draft materials to be published. We will publish those materials on the 24<sup>th</sup> of April for public comment.

This will last until about the 4<sup>th</sup> of June and we will have an iteration two – sorry, on this slide the BFC stands for Board Finance Content. The BFC will be reviewing the comments received, the suggest response from staff, which could be consisted of a response to the comment that does not have an impact on the budget or a response from the comment that does have an impact to the budget and therefore a change to the budget. The BFC will review this and will finalize a position, which presumably will be to recommend to the Board the approval of the budget and this approval would be provided between the 22<sup>nd</sup> and the 26<sup>th</sup> of June during the London meeting.

You may remember last year, the Board can also determine – and usually on the recommendation of the Finance Committee – that for a reason or the other, more work is required or more [concertation] is required and delay the approval of the budget, which happened last year if you remember. The budget was approved on the 22<sup>nd</sup> of August. This is an overview of the process and where we are today. Next slide, thank you.

This is the portion to the process relative more specifically to the SO and AC additional budget requests. For those of you who don't know, we had for the past three or four years now a process to organize the submission of specific requests for specific funding of actions from the SOs and ACs. The deadline for submission of those requests was March



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7<sup>th</sup>. We have therefore collected and consolidated those requests and we are in the process of reviewing them.

The next step is to submit to the Finance Committee of the Board a recommendation on the decision relative to those requests. Should we fund them or not? The BFC who will meet again in the same timing on the 16<sup>th</sup> or 17<sup>th</sup> of April will then make a recommendation to the Board, to approve or not those requests, and the Board meets at the end of April during one of their workshops. It meets at the end of April. At the end of April, we will ask the Board to approve the SO and AC additional budget request that will have been recommended for approval.

This is a big of an exception in terms of timing. This timing of approval that's disconnected from the rest of the budget has been created last year to allow an earlier decision on those requests, notably for those that relate to actions that happen early in the fiscal year – July, August, September – because an earlier decision is required for those organizations that have submitted those requests to know if they can start planning for the activities that they have requested funding for. We have advanced, by exception, the decision of approval by the Board only for those requests that are recommended for approval. That decision, therefore, will happen approximately on the 26<sup>th</sup> of April.

To help us with going over the structure and as a reminder of the structure both of the process and the content of the operating plan and budget – and we'll look at those of you who may participate to the next session at 3:30 on the management system, we'll talk a lot more about the management system then. Our management system initiates from a strategic planning process which feeds into the operating plan – this is



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the first orange box on the right – which, itself, feeds into the development of the budget as a cost-management. Once we have a budget, we manage the portfolio of activities that this budget supports throughout the year. The performance management of the employees is based upon the portfolio of projects that are set as a result of the budget.

When I said the people’s performance, it’s very simply and directly each staff has objectives for a trimester or period between two meetings that are directly linked with the portfolio of projects that come out of the budget process. The performance of the people is linked to the delivery of those projects.

We also, as part of this process of delivery, have a full ERM process that is in place to manage risks and, of course, “managing” meaning mitigate and ultimately we’ll also audit the mitigation plans of the risk management. We will talk a lot more about it a little bit later in the next session, but we are also in the process of developing an executive dashboard which captures and consolidates the various metrics across the entire organization that [materialize] the monitoring and the progress of the various projects and the work of the organization.

Area by area, department by department, the number of metrics help the monitoring of the project progress and of the work of the organization. Those, of course – just for clarity – those are not just financial metrics. The financial metrics is just a few of the many different metrics that are in the dashboard, because this is an operational dashboard foremost. Let’s move on. Oh, sorry, no – can you come back for a second? I nearly forgot the most important part.



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The set of systems is all centered around the structure of our portfolio management system, which is based upon objectives, goals, portfolios, and project. This is the four-by-4four model that you have seen Fadi introducing about a year-and-a-half and repeating through the various communications and meetings that we've had together. This structure is the way we categorize all the activity of the organization. There are 4 objectives, 16 goals, 52 portfolios as of today, and we will look at that a little bit further.

The point of this is to be able to explain that the entire planning process – as well as monitoring process, including the dashboard – is structured in a consistent fashion. This is an extremely important implementation that we've worked on over the past few months and that will continue to be worked on because this is how we will resolve the issue that we have had in the past of being able to link the strategic objectives to how these objectives are being delivered and how the budget is formulated.

All of these systems that we are describing here are structured in the same fashion based on the 4 objectives, the 16 goals, and the portfolio structure. Let's move on to the next slide.

At a very high level, our future state of planning. I don't know if there's any way to zoom, but it's not going to help much. This is a very straightforward and simple and logical process of planning which needs to start with a five-year plan. We are finalizing towards the end of June in London the five-year strategic plan, which of course will feed into the development for year one of the operating plan.



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The exercise of developing the operating plan on an annual basis, as well as the budget, will feed from the strategic plan and requires, of course, to ensure that we embed into this plan this process, the adequate amount of interaction with various stakeholders, the community, the Board, etc. This process will lead to having an operating plan and budget approved, which is then driving the activity of the organization and is being measured in terms of achievements and progress against the plan throughout the year and the delivery of that plan.

It needs to be, of course, communicated on an ongoing basis. This is through the financial reporting as well as the operational reporting. This communication needs to be much more, of course, than financial. The progress and the monitoring of the progress leads to reassessing the plan, not necessarily from a strategic standpoint. The activity of the year does not necessarily require the strategy to change, but we need to readjust the plan to ensure that the differences between what was originally planned in the first year of the five-year plan has effectively happened or may have happened differently and therefore the year two of the plan may need to be adjusted accordingly. It's a revalidation of the five-year strategic plan and then we go again on the cycle. Let's move on.

This is a more specific view of the management system. On the left, the four objectives that you may recognize: Affirmation of Purpose, Operational Excellence, Internationalization, and Multi-Stakeholder Model Evolution. The numbering is not necessarily a representation of priority. It's just a representation of identification.



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On the right, for each of those four objectives there are four goals. Suzanna is sending me an e-mail. I'll look at it later, Suzanna. We have indicated here for the sake of simplicity – and I'm not going too much into the details. On the right of the goals, you have the number of portfolios that are underlying to these goals. For the 4 goals that belong to Affirmation of Purpose, there are 12 portfolios that support those 4 goals.

I will not go over the 16 goals. I suspect a number of you know them already. I have further in the presentation a number of details of the portfolio and I'll take a few – maybe one or two – examples of when we are that Q&A if we have any questions on the subject. I can show a bit more detail or examples of what lies behind the objectives.

The upcoming operating plan budget will include three different pieces of information, sets of data. The operating plan will be broken down by the 50 portfolios that I mentioned earlier in the previous slides. If you have counted, it adds up to 50, the right side of the previous slide – to 52, sorry. To each portfolio will be associated the description of that portfolio in terms of what are the key success factors to deliver that portfolio and the steps to complete that portfolio for the year FY15 that we're planning for.

The second piece will be the statement of operations – which in other words we call a P&L (profit and loss statement), which will provide a breakdown of the operating expenses, both by nature of costs – personnel, travel, professional services, admin as those of you who have looked at our P&L are used to see – as well as a breakdown of the





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operating expenses by department, by function: operations, global stakeholder engagement, GDD, etc.

Of course, I didn't mention it there, but beyond the operating expenses, there's the breakdown of the revenues [inaudible]. This is a full, comprehensive P&L. This information will also be comparing the FY14 forecast for the rest of the year to the FY15 suggested budget.

The third information will basically make the link between the first two pieces by providing the breakdown of these expenses in a third, different fashion, which is the projects that make up the 52 portfolios.

Chuck Gomes is not here but one of his questions was about "Can we get the project level of detail?" This will be the breakdown of these operating expenses – not by nature, not by function, but by project. Carole will correct me but there's approximately 500.

CAROLE CORNELL:

Sorry, to clarify, there are approximately 532 projects. Of those, two-thirds of them are what we would call ongoing work. That leaves about 200 distinctive projects in a given menu of work in full.

XAVIER CALVER:

To provide a bit of background, when Carole mentions ongoing projects, if I selfishly give the example of the Finance Department, one of the projects for the Finance Department is finance operations. It's the day-to-day work of a traditional Finance Department. What would not be captured under that one projected called Finance Operations would be, for example, a systems upgrade, specific research on a specific subject,



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a more traditionally-defined project that has a real beginning and an end. About two-thirds of projects are effectively capturing ongoing activities. I think that's it. Yes, please.

The next steps for the budget process. Public comment with the materials that we just described the content of in the previous slide. We will have kick-off calls immediately after publication of the data – immediately after the 24<sup>th</sup> – to present the information with the intent of allowing an easier digging-into the information. This has been usually – now that's been a few times that we've had these presentations of the information. It's been well-received, I think, because it's useful to get that information to get into the comments.

At the outset of the public comment period – which, again, is to close the 4<sup>th</sup> of June – we will review the comments, formulate draft responses, submit these comments and the responses to the BFC (Board Finance Committee) for review and for their approval that either the lack of changes to the budget or the changes to the budget are resulting from the public comments are valid and to proceed. On that basis, the BFC will recommend, presumably, to the Board to approve the budget, which will be done in end of June in London.

Different subject now. Quick overview of our financial reporting. I wanted to put on the map a little bit what the organization has been doing in the past, where we are today, and where we're going.

We have historically and for a number of years had an audit of our financial statements. This is looking in the past. The audit report is produced after the end of the fiscal year for the past fiscal year. It is



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reviewed by the auditors and published. This is historical information. On the forward-looking basis, we've always done the annual budget. By the way, until last year, we never actually compared the budget to what effectively happened – or at least, we never provided that information.

What we have done in FY14 we will do in the same fashion, the annual audit. By the way the annual audit has always been successful, as per the standard of auditing in the U.S., which are very similar to international standards. A bit more stringent.

We have added, this year, an information in the annual report and I sent it to the recipients of e-mails that we have an ongoing basis in the finance community, the link to the annual report. In the annual report, we provided an overview of the financial statements and some comments on the variances that come out of those financial statements for the annual report of FY13, which was published towards the end of November from memory or early December, it's now escaping me. There's a link on our website to this annual report, if you would like.

We also have – and I will speak a little bit more about it – we have now produced, as well, quarterly reports. Like most listed companies that produce what is called for example in the U.S. the ten Qs, the quarterly reporting (the 10-K being the annual reporting). The listed companies in the U.S. have an obligation to publish the quarterly reports. It's a fairly comprehensive set of information, financial and operational, as well. In other countries, it's very similar. Of course, we're not a listed company, but we are producing quarterly reports since the first quarter of our fiscal year that closed at the end of September 2013. FY14, we will have



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published the four quarterly reports and have published two. The next slides are about that.

Our future state is to add to this the five-year plan. I'm looking at the more financial aspects of our strategic plan which, when we establish our strategic plan, we associate it with an action plan, which drives the resource requirement. The resource requirement lets us quantify those resources and we will have a set of five-year financial projections, which will be in a very similar format to financial statements – much more aggregated but nonetheless financial statement formats.

That's a long-term, that's an annual frequency. We're also working on developing forecasts within the year for the full year projection, forecasting while we're in the middle of the year what we think the current fiscal year will end up at, which is a completely traditional exercise that all companies do.

Those of you who know the corporate reporting or have experience know that a number of listed companies have investor calls, for example, more or less on a quarterly basis to present their past quarter's information, to also talk about the forward-looking information of the quarter. One of the elements of that exercise, of course, is based upon financials. This is what we're talking about here, the financial part of the information. We'll talk separately about the operational reporting on a quarterly basis that we will associate to the financials with the dashboard, etc. This is looking into the future. Next slide.



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This is my advertising piece. This is on the ICANN website, where the quarterly reports for Q1 from July through September, and for Q2 from October to December, are published and available to anyone who would want look at them. The content is on the next page.

Executive Summary, which is basically the comments on the main variances. It breaks down the budget by order, which, of course, that doesn't change from a quarter-to-quarter basis but it's useful for the reader to know what the budget by quarter is.

Statement of Activity – this is a P&L. This is the P&L for the quarter, basically, comparing budget to actuals and providing comments on the variances between actual and budget.

The Balance Sheet, which we should actually have called a Statement of Operations. The funds under management, which include the operating cash, the reserve fund that ICANN has, as well the new gTLD fund that are segregated but presented all together in this view.

Cash Flow Synopsis is a cash flow of cash at the beginning of the period – inflows, outflows by category, cash at the end of the period, with the breakdown between the ICANN operations and the new gTLD program, and provide the total.

This is a more specific and more detailed view of the operating fund, new gTLD cash. The reserve fund, also, so that we can show the various contributions to the reserve fund that have happened notably over the past nine months, with the repayment of the historical developing cost from the new gTLD program to the ICANN operations; an overall



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summary of the new gTLD financials and the breakdown of the historical [development] cost.

That's the content. I didn't intend to go through all the schedules with you, with the size of the screen we would not see it anyway. I'll let you go into the links on the website if you would like more detail. We'll stop there so that we can start any questions or [answers] that you would like to go over. We'll take a list. Who wants to start? I have Chris. Chris and [inaudible], thank you. Please, go ahead, Chris.

CHRIS CHAPLOW:

Thank you. Chris Chaplow from the Business Constituency. Thanks for letting me start, because I've got to step out in a second.

Last year, you gave us a [dump], an Excel [dump], from the budget, which was very useful because it had all the information in one place. The first part of the question is: are you going to do that again in the similar fashion, which is the useful way for us? The second part of my question is back to the detail that last year that was 160 categories...

XAVIER CALVEZ:

Programs.

CHRIS CHAPLOW:

Programs with the four categories in each.

XAVIER CALVEZ:

Correct.



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CHRIS CHAPLOW: I'm asking hopefully what to expect in this year.

XAVIER CALVEZ: In the slide that we looked at on the content, I indicated that we would provide the breakdown by project. If you go down the structure of the project – it's the slide after that, I think. At the bottom of this page.

Last year, you're looking at a breakdown of the objective, goals, portfolios, and programs. The program was a level of aggregation of projects that existed between the portfolio and the project level. We have eliminated this level of aggregation because it was actually hard to manage so many levels within the management system, but the level of project in both years remained the same.

This is where the data input is. It's at the project level. This year, we will be able to provide the projects, going one step further down than last year. Last year we had approximately 160 programs that aggregated about 500 projects, as well. This year we'll provide the list of the 500 projects, which is going to be a lot of information, to be clear.

CHRIS CHAPLOW: Yes, thank you, because sometimes on calls on specific issues staff would refer to a project [in] numbers and that was something that wasn't visible to us.



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XAVIER CALVEZ: Correct, yeah. Using the level of projects is going to be a learning exercise for us all, because how to break down a set of activities by project is a little bit of an art and sometimes a science. There's not an absolute truth about how to break down the entire activity of an organization by project. I indicated a little bit earlier, for example, the finance operations; I have them in one project. The recurring activity, day-in, day-out reporting, accounting, account payable, billing and all that is in one project. There's beginning or end to that activity which is carried on a daily basis.

Of course, there's the different types of projects which are more specific, defined, beginning, end of a project which can be, for example, the systems implementation – that has more defined life, I would say. That also will appear at the level of project. Carole indicated a little bit earlier we have about two-thirds of ongoing activities at the level of projects. Out of the 500, two-thirds are approximately ongoing activities and the remaining third are more timely defined projects. Is that answering your question, Chris?

CHRIS CHAPLOW: Yeah. Can I ask a follow up?

XAVIER CALVEZ: You have a free pass.

CHRIS CHAPLOW: The first one, the follow-up would be about the size of it. Some of the programs last year, there were several around 5 million.





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XAVIER CALVEZ: Correct.

CHRIS CHAPLOW: Is that being broke down? You didn't actually answer, are you going to give us a spreadsheet and, if so, are we going to be able to track it through the...?

XAVIER CALVEZ: Yes, we tried to put the five hundred projects on one slide and it didn't fit. So yes, we will provide a spreadsheet, yes. It will be a lot easier. Honestly, it will be indispensable because you will want to drill down from potentially goal and objective and goal and then a portfolio. I think at the portfolio level is then when you will want to drill down to say, "Okay, so that portfolio, I'm entrusted to look at but I don't understand what's in it. Let me drill down on the list of projects that make up that portfolio." I think that's where it starts making sense. Yes, we will provide it on the spreadsheet. Dennis, please?

DENNIS JENNINGS: I'm Dennis Jennings and I served on the ICANN Board and I served on the Finance Committee back in 2007. I'm somewhat dismayed when I looked today, and the reason I'm here, at the reporting to see that the reporting has essentially not advanced from that time. Now, I understand there are reasons for it and so on.



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I do a lot of investing and I do a lot of non-executive director work. When I look at a financial report, what I want to see is information on the business of the organization, its costs and the projection for the next period, whether that's the end of the year or 12 months or whatever.

I'm not really interested in lots of detailed projects. I want the sort of big picture and then be able to dive down. For me, the big picture in ICANN is where the money's coming from, which is very well detailed and where the money's going on the big activities. The GNSO, how much is being spent on the GNSO? How much of the overhead is allocated to the GNSO? How much is being spent on the ccNSO and so on? Big chunks of business activities that I can look at and I can see what was planned, what's spent, what the projection is and then I could drill down and look at specific things.

I'm not sure that you're going to end there, but I just wanted to highlight that as a businessman, at that level, I want the financial reports to tell me how the business is doing, how the overheads are being allocated, and whether the balance is right – as a Board member, whether the balance is right; we're spending too much in this area, not enough in that area. Where the sources of money is and how that is being allocated to expenditure, what the overheads are, how they're being allocated across and that's appropriate.

XAVIER CALVEZ:

Right.



DENNIS JENNINGS:

I just wanted to give that that's what I started to try and do in 2007, got somewhere along doing that. I mean, you have to understand that when you do the reporting, it's all about making decisions about allocations. There's no precision here. It gets a bit contentious but it gives you a picture of the organization that allows you to track the business.

I'd like to suggest that you put that in the – you talk about that, as well, maybe in the future, and you get from the community what their perspective on the business is, as opposed to the individual projects or programs or whatever, which may cross business or maybe at a level that's too detailed. Anyway, that's just my perspective as a non-executive director, both ex-ICANN and in small and medium businesses.

XAVIER CALVEZ:

Thank you, Dennis. A few pieces of answer. What you're describing requires to have in place a system of project accounting. I'll force the technical word here, "project accounting" – which is the basis to be able to provide information even at a high level on activities in projects or areas of the organization. Yes, business areas.

I'm mentioning here the breakdown by function. It is not the [inaudible] areas. It is the breakdown of the organization of the staff by group. It is helping a bit, but not fully going into the direction of what you're –

DENNIS JENNINGS:

[Inaudible]



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XAVIER CALVEZ:

I think it'll be interesting to others than just us, but it's not addressing exactly the point that you're going at. You, I'm sure, remember that we had, until a few years ago, an analysis that was I think aiming at providing an answer to what you're pointing out which was called the Expanse Area Group.

The challenge with that analysis is that, exactly to the point that you were making earlier, it was so reliant on allocations that it actually – pardon me – didn't have much value. Exactly. Part of the problem is that the entire set of expenses was distributed across buckets using percentages of allocations, every single one of them being subjective. As a result of which the only information that – let me rephrase. The only activity that this document ended up by creating, even though that was not originally the intent, was discussions on why the percentage was the way it was. Therefore, it actually didn't provide much information.

Having said that, looking forward, I have worked with the ccNSO on trying to capture the costs of the organization that particularly refer or support to the ccNSO. That exercise has led us to develop a model of direct costs, shared costs, and global costs. I won't go in the details, but this model has helped us be able to give a shot at the breakdown in a less subjective manner of the costs of the organization by its purposes.

We have agreed and we've discussed this with the members of the ATRT-2 team that has worked on the financial recommendations of the ATRT-2 team to basically use this model and not just leave it at the ccNSO level, but allowing it across all the organizations so we can identify the layers of direct costs. What is the direct and immediate support? Those are very simply and clear to identify. It's the staff



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members that are assigned to, let's say, Glenn de Saint G ry for the GNSO, etc.

Then there's the layer of the shared costs. For example, the meetings cost is clearly shared among the various organizations. Simple enough, as well. It does require allocations. It does require allocations.

Then the global costs, which are – take Fadi's costs. How do you give a piece to the GNSO or the –

UNIDENTIFIED MALE: [Inaudible]

XAVIER CALVEZ: Right. You can either go by that, which makes my life easier, or you take a very subjective allocation [key] or you actually try not allocate them, which is another approach.

I have that on my list for a few months, now. We are going to develop a model that allows to do that exercise and provide that information once it's completed. It will help.

UNIDENTIFIED MALE: [Inaudible]

XAVIER CALVEZ: Yes. That sounds like a good description.



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UNIDENTIFIED MALE: [Inaudible]

XAVIER CALVEZ: Yeah, sorry. “Overtaken by events” is I think the kindest thing and the [only] appropriate thing I can say. I agree with you. The model that I described about the ccNSO has been identified as an alternative to the [EAG] for the purpose of the cc’s contributions because we were kind of stuck with [EAG] in the dead end. That’s why we came up with this. Marilyn, I think you had a question. I’ll go across to be able to see you.

MARILYN CADE: Thank you. I was caught outside thinking that I was waiting for someone else. I was very anxious to be here and I apologize for being late. You may have done this, but I think it’d be very helpful for all of us to know who’s in the room and the groups they come from. Because one of the things that helps to understand whose voices are not here in this particular session, and I want to thank you for doing a second session. As you know, I always like to come to all the sessions you do so that I can hear the different perspectives.

I come from the Business Constituency. While I have some interest in Dennis’s view of wanting to be able to look at the finance world from a particular perspective, I also have a need for a fair amount of granularity in order for me to be responsible to the business users.

It’s no surprise but it’s probably important for me to say this so we don’t have a disconnect later. Xavier and his staff are well aware of this. In our view, registrants pay fees. Registries and registrars collect them and pay



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a fee to ICANN. We think of us as, ultimately, the funders of ICANN. That's not to diminish the fees that contracted parties pay, but I say it because sometimes there's a gap in when the contracted parties are in the room by themselves and they're talking and they're thinking that the only people who care about budget integrity or finance integrity or finance reports are them. I just want to say that's not the case. We've spent almost as much time on ICANN governance in the BC as we do on policy issues, which was never our intent, but we take it very seriously.

I thought it would be – since there are a number of new people here – be worth kind of saying that, because we do ask for a level of granularity. At the same time, Dennis, we also really appreciate the need for the higher level [inaudible].

On the granularity issue, I think it's been – I just want to say that it's been very, very difficult. I understand the explanations about lack of mechanisms. It's been very, very difficult for us to do our job in ICANN governance because of the lack of granularity.

I'm going to give a couple of examples. I expect to be able to find in the budget whatever amount of money it was that was allocated to an MoU with the Indian government or was allocated to the CEO's discretionary fund or was allocated to the funding of the [strat] panels. That, to me, is the kind of project identification that has to go against something that the community has agreed to and that we have to be able to assess as those of us who are concerned about ICANN governance – not only what's being spent but then, as the projects are evaluated, whether they have fulfilled the purpose for which they were intended.



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Now I'll just go on to say one more point. Within my community – and this is not a negative comment, but it's an observation – within my community, we have always perceived that ICANN has had an irrationally optimistic perspective on the growth of domain name registrations in the new gTLDs. Perhaps that's just because we come from business and we know how long it sometimes takes to introduce new products. We've seen the duplicate registration that businesses are having to engage in as one source of revenue. I'm not making a negative comment about anybody's business strategy. I'm just saying when we look at the growth in the names in the introduction of the new gTLDs now, it's difficult for us to forecast the revenue stream that will allow ICANN to continue to spend at the aspirational pace that seems to be foreseen. I'm being positive but clear, right?

We're kind of panicked right now on how much money the organization might be planning on spending with an office here, an office there, a new MoU here, a new MoU there, walking the halls of the UN – not a good idea, by the way. I'll say more about that later in some other meeting.

We're worried about the spending, yet I can't actually be sure that I can track what commitments are made and if I've got a lot more \$3.6 million MoUs coming up and I am not going to have a revenue stream for it. Because for me, the biggest risk to this organization is not governments. It is operational excellence in all of these places.

We're making progress on the reporting, so in some cases, this is [inaudible] you know, I'm really talking more about the philosophical direction, because this is just a mechanism that helps us manage. But if





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we've got projections of spending based on assumptions that are not sustainable, I'm worried.

XAVIER CALVEZ:

But you don't have to be worried yet. You don't know what the assumptions are, right? You'll know that in the beginning of the presentation that will be submitted to public comment. You'll have the revenue projections.

As an example, in FY14, we didn't include any revenues for transactions from the new registries. We only included a certain assumption of ramping up of the new registries coming out of the program, generating only the fixed fee. Because of the name collision work, to put it this way, the phasing of the ramp-up that we had budgeted for is a bit slower than what we had budgeted for.

The assumptions for revenue projections for the FY15 budget will be in the FY15 budget and hopefully will be sufficiently clear that it lets you understand how they are formulated. But I think your point was more about how the activities of the organization are planned for and committed with the understanding of the financial impact that it has and whether that financial impact is effectively, correctly offset with the stream of revenue that's reasonable and not overstated. I think that was part of your point and I wanted to make sure you took an example, which I recognize is just an example, on the strategy panels. Was your point about understanding how much it has effectively cost or understanding how much was budgeted for it?



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MARILYN CADE: All of the above.

XAVIER CALVEZ: You know that \$3.5 million was budgeted for, right? That was in the personation last year and in the FY14 forecast. We will make sure that the corresponding forecasted amount of spend relative to the panel is specifically displayed. Now, this is just an example. It's a significant one, but just an example.

When Dennis and I discussed the type of information that we would like to see going forward, Dennis mentioned an overall understanding of the activity of the operations. You mentioned a level of granularity, which I think in your mind is deeper than what Dennis was describing. I think that, from my perspective at the end of the day, in the stakeholders there are different levels of interest. What we as an organization need to do in terms of accountability and transparency is address those, all of those. I don't think it's an either/or. I think, at the end of the day, it's a comprehensive [inaudible].

We have, in last year's presentation, given an attempt at a high-level views of spend versus budget. This is also appearing in the annual report, again at a high level. The quarterly reports that I mentioned earlier also contain a comparison between actual spend and budget, but more at a high level. Not necessarily at the level granularity, Marilyn, that would answer on a quarterly basis your question on this project with India or this project with the panels or this project on WHOIS was budgeted for this much and is costing this much.



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This is where I was pointing out to Dennis that the capabilities that would provide the information about this aspect, we need to basically be able to put them in place, which is a project accounting. Which, coupled with the management system, lets us monitor the projects, both from the perspective of the steps in the milestone and resources, and the dollars associated with those projects.

We have provided you since last year with the budgeted dollars associated with the program level. We will provide you this year with the dollar amount associated with the project level. From a budget standpoint, the capabilities that we do not currently have internally are to produce that same level of information on a natural basis, which is where the project accounting comes in. Which has a certain amount of requirements of being able to basically associate every single cost to a project, including the personnel cost, which requires time tracking, let's be clear. That's not yet in place. Carole is my witness that we've talked a lot about that in the past. Sorry, I don't know your name but I know you were in the queue. Can you introduce yourself?

PRANESH PRAKASH:

Hi, my name is Pranesh Prakash. I'm with the NCUC and I am very new to this. This is actually my first ICANN meeting.

XAVIER CALVEZ:

Welcome.



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PRANESH PRAKASH:

Thank you. I'd actually like to know a little bit more about the budgetary processes that you're talking about. For instance, over there, the Ad Hoc Advisory Working Group is mentioned and I am guessing that Advisory Working Group comprises members from the community and I'd like to know a little bit more about that, because I was just doing a quick search online and I couldn't find more about it. I can see that ccNSO and ALAC have Finance Committees working groups within them, but I couldn't find out more about this.

The larger question, in a sense – and I can see that there are various mechanisms for community requests for budgets but I'm not quite clear on where the community can say, "This should be the total amount that ICANN should be spending on these kinds of activities versus giving this amount to other things," because I'd like it to be recognized that as part of the NETMundial submissions, there are a number of submission that actually deal with ICANN's kitty of money and say that ICANN should be spending it on these kinds of IG activities or on developmental issues which are not domain name-related. Is there any kind of participatory budgeting? How would ICANN react to some kind of outside advice on how it should be spending its money?

XAVIER CALVEZ:

First, a very practical answer. You've entered this room and you've been tagged, so now you're going to be part of that community, the Ad Hoc group. The Ad Hoc group, the [inaudible] history is that in Prague, nearly two years ago, I tried to make sure I gather a group of interested community members, whether they are part of a structured organization about the budget or not.



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Whoever is interested, we gather that group of people and ever since, anyone who's shown interest in the overall budgeting process, we've added them to an e-mail distribution list, basically – no more, no less than that – who receive, then, notifications on upcoming meetings to talk about the process, to talk about content throughout the year, or to receive documents, as well. Again, you've been tagged and you're going to receive those e-mails.

Anyone who's interested, there's a Finance Community Wiki on the community Wiki where [inaudible] of the information is used as a repository for the various process of review and input that we provide. That's another thing. [Maya], can I ask you to send the link to that so that he have that understanding?

I'll try to keep my answer very general. The mechanisms of participation into the development of the budget is the one that we are learning right now with this meeting, for example. And at each ICANN meeting, we will touch base in the setting like this to give an update on the process.

It also contains the public comment process where the comprehensive operating plan and budget information is submitted for public comment. You and your colleagues from NCUC, for example, will receive that information. It will be public, right? When I say "published," it will be on the website open for public comment. Your colleagues have, in the past, formulated comments or questions.

To make a comment on this process, the part that we need to be able to improve upon is increasing the amount of interaction earlier in the fiscal year to enable a more frequent interaction and a more interactive



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interaction on the content of the development. Also so that this input from the community can be provided while we develop rather than once we've developed a draft, if you see what I'm saying. Because it comes on the tail end of the process and it's becoming challenging to make changes when it's all [happening] at the end.

That's a number of challenges that this community at-large has been facing over the past years and that we are still tackling to improve. Raimundo?

RAIMUNDO BECA:

Wonderful. Those that don't know me, I am Raimundo Beca. I was a member of the ICANN Board during six years, 2004 to 2010. In all those six years, I was always a member of the Finance Committee. I even chaired the Finance Committee in the critical moment when the 180ks were fixed for the application fee. In the calculation of this application fee, well, it was [made] by an [unanticipated] risk, risk financing. I think the experience will show, it was very well calculated.

One of the issues that was that year, that the [inaudible] funding should be pay for the historical costs. I've had some doubts about the amount that was considered for these historical costs. I asked in the comment period in January 2011, and then in January 2012 and also in all the meetings since then until Buenos Aires and [inaudible] inclusive.

I see that now, in slide 12, there, it's indicated that there is a [inaudible] statement about the new gTLDs' historical cost. I imagine that finally this audit that I asked was then or not? What? My question is where are we [inaudible]?



XAVIER CALVEZ:

Raimundo is referring to the portion of the \$185,000 of the application fee that had been designed and included to repay ICANN for the costs of developing the new gTLD program, basically. The mechanism of those historical development costs was allowing to repay ICANN and their, basically, customers for the fact that the cost of developing the program had been incurred prior to the program starting.

The historical development cost amounted, as per the first estimate, to approximately \$32 million, as incurred between October 2008 and January 2012. That's the period over which the measurement of this historical development cost had been agreed to be limited to, because if you think about it, ICANN incurred costs also on the program before that. It's been defined as this period and that's what the \$32.5 million corresponded to.

Raimundo and I have had a number of conversations on this subject, including about having an audit being performed on these costs. We have contracted with our auditor, [inaudible] Adams, to perform this audit. This audit is actually in progress. I'm hoping to have the results for London. The auditors have been looking at the best methodology to be able to analyze and audit these costs. We have just finalized, last week, the terms of their engagement as well as the type of report that they will be able to produce. The reason I'm mentioning that is because the profession of auditor is very [regulated] in the U.S. and they're very specific as to the diligence that they need to perform and as to the type of statement that they can produce after this diligence.



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It's in progress. I'm hoping to have the results by the end of June. In the meantime, as a matter of interest, the repayment of the historical development cost, which happens along the delivery of the program, has started, of course. We have repaid, by the end of February I think approximately \$20 million out of the \$32.5 million. I know you don't agree with the approach, but the repayment is – yes. The repayment is progressive and we are now about two-thirds done in the overall evaluation program. That's also the proportion of historical development costs that has been repaid by now. Approximately \$20 million out of the \$30 million.

UNIDENTIFIED MALE: [inaudible]

UNIDENTIFIED MALE: On Marilyn's request, I would like to present myself, as well. I'm [Phillip] [inaudible], working for the Belgian ccTLD, which has been in the top 20 of the ccTLDs in the world. I'm also here to represent two new gTLDs. Just for the record, I would like to state that I consider that [inaudible] the registries and registrars [inaudible] paying ICANN. To make a simplistic analogy, you could say if I go to a restaurant and not satisfied about the steak I'd ordered there, I will not go to the butcher or the farmer to complain about the steak. I will complain to the guy who baked it.

The reason why I'm here is, first of all, it's one of the most interesting meetings of the whole ICANN meeting to me, because I'm interested in numbers. But we have the same goal, because I also want to understand





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how the business of ICANN is doing and where the money is spent and where the money is coming from. In that perspective, we fight the same battle, if you see it like that. I don't have a question.

XAVIER CALVEZ: Thank you. Dennis?

DENNIS JENNINGS: I agree with Marilyn. There are many ways of looking at these. There are at least three different analyses that I think need to be done routinely. One of which is the one I talked about it, one of which is the one that Marilyn talked about. But I expect to read the financial accounts and to really understand the business by reading the financial accounts. I don't expect them to go anywhere else but the financial reports and see the rationales and justification, the reporting and so on, the projections.

A comment, then. That means your chart of accounts and your project charts need to be designed so as to enable the sort of reporting that is required. Therefore, a suggestion that it would be very useful for people like me and others who are interested, for you to dummy up the reports, even though you don't have them, but to dummy them up so that we see what they look like, so that we can actually provide feedback. And for you to find out whether there is a mismatch or not between your chart of accounts and your project charts, that you can actually produce the reports that are necessary.

I had a major point which I've forgotten, so I'll shut up and think about it.



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XAVIER CALVEZ: Let me try to respond to that very specific point and it will give you a little bit more time to remember. Reviewing the chart of accounts, it's very easy for me to provide you guys with a chart of accounts, no problem. It's going to be of limited help, however, because the chart of accounts, as per which the standard accounting is done, is a list of expenses by nature – so personnel, travel, hotel, consulting costs, and so on, training, this type of thing. That is a nature of costs. It's not a purpose of the cost.

DENNIS JENNINGS: [inaudible]

XAVIER CALVEZ: No, go ahead, go ahead, go ahead.

DENNIS JENNINGS: You see, I think your chart [of account] is far too limited, that actually you should have a chart of accounts that reflects the nature of the accounts. For example, a chart which is just professional fees and that doesn't provide any analysis of the nature of those fees and so on. For instance, legal fees, I'm sure are a great big chunk of that but they're completely invisible in your chart [of account].



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XAVIER CALVEZ:

No, no, they are visible. They're segregated into an account. But it's just an example, but I get your point.

The level of granularity of the chart of account, there's an expression which is now escaping me about you can have things very granular but it's actually also quite demanding to make sure that the information is accurate. You can have thousands of accounts but you need to be able to make sure that every piece of information that's tagged with that account is correct. This is an army of [accountants], if we go too far down the details.

On top of that, even if I put legal fees, even if I put more granularly the nature of the types of fees, for example, that we can pay, it won't tell me why spent it for what purpose. This is where I'm coming to the project accounting part is that when you combine the chart of account with the projects, then you start having both the nature of the spend and the purpose.

It's not, I think, exactly what you had in mind but I think it's – the advantage of it is that it helps us tag the dollars to the activities that we track on a very operational basis. To me, when we are able to do that, we will have really – if you imagine, at the level of granularity are 500 projects, which is a lot of information. I don't know any organization that provides even the 60 portfolios information that we actually will provide, but this is beside the point. 500 projects with a cost corresponding to those projects associated to it. Which, the project will let us know, "This is finance operations," "This is the implementation of this," "This is the Indian Security Academy," "This is this," "This is that," "And this is what it costs."



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I think that when this becomes insufficient to explain the financials of ICANN, we'll have reached the limits of that. I think we have a few years in front of us. Please?

DENNIS JENNINGS:

If I may, I remembered what I wanted to say. One of the complains that I came across, as a Board member, on an ongoing basis, was that the various organizations did not have an opportunity to review the total budget that was associated with their activities. They had an opportunity to request increments but not actually to look at the business and say, "You know what, Xavier? We want to reduce that because want to do more of this."

Getting more participation from the business units, let's call them that – the GNSO, the ccNSO, so all the SSAC or whatever – in the overall budget allocations and the decisions about what is spent is, I think, a key policy that ICANN management needs to look at.

XAVIER CALVEZ:

Thank you and it's very clear. What I was describing earlier as the leveraging the pilot that we have been working on with the ccNSO across the other organizations is an approach to answering exactly that question. To be a bit more specific, when we're working with the ccNSO, what I put together, what I provided is these three buckets of costs going from specific to shared to global.

The specific costs for the ccNSO are the three people from the staff that support the ccNSO, so it's Art, it's [Christina], and [Gabriela]. There's



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also the travel support for ccNSO members who are funded for traveling. Those are the main two direct categories of costs which amounted to a certain amount.

We took, then, a number of shared functions that the ccNSO members either participate or benefit from. The meeting, meetings’ costs, took an average meeting cost, we took the average number of participants to a meeting, the average number of ccNSO participants and we prorated it. \$2.5 million of costs, 1,800 participants, 150 ccNSO members, that’s how we calculated the amount.

Then the global costs we actually didn’t try to allocate. We could take any kind of key but we didn’t feel that there was a sufficiently objective or not-too-subjective allocation key to provide a valuable analysis of that. We left that at a global level and we didn’t try to allocate those specifically.

If we apply this model, we would, if you imagine a spreadsheet –and as a finance person, I think of things in terms of spreadsheets sometimes – you can imagine those three layers of costs and the last. The two at the bottom – so specific shared, global – broken down by ccNSO, GNSO, and etc., etc.

That’s the battle that we’re working on to develop. It’s going to take a certain amount of time because it’s complicated. Well, it’s not complicated in principle but splitting the information and grabbing the information is taking a bit of time. That’s on our list of projects. I want to complete this in FY15.



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DENNIS JENNINGS: One of the challenges that arise when you do not allocate the global buckets is you don't force the organization, the members of the organization, the units within the organization to actually examine those costs. In particular, you don't give them – which, I think, might be something that Marilyn may be looking for – the opportunity to say, “You know what? We won't do some of that stuff because we want to do more of the direct stuff.” Do I...?

XAVIER CALVEZ: Yes, [inaudible]. No, no, no, no, I'm going to answer to answer for me and then I'll let you answer for you.

MARILYN CADE: What a brave man.

XAVIER CALVEZ: I won't take the risk of answering for you. There's no reward to that risk.

Then going through that question of “Do you allocate and is it easier to manage? Or do you not allocate and is it easier to manage?” Is it easier to attribute a portion of a global cost to an owner so that that owner can do something with it? Part of the challenge that I have is that – I'm going to take a little bit of an exaggerated example again, for the sake of argument – if I take Fadi's cost center and I try to allocate it, a piece to ccNSO, a piece to GNSO and so on, the ccNSO is not going to be able to do anything with the piece that – so from an actionable standpoint, it doesn't have any use.



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What I'm expecting is that a level of granularity provided on that global bucket of costs that would not be allocated would be a transversal breakdown of the costs. Not trying to say there's a piece for each here, but this is how the costs actually come through: "This is this much for executive, this is this much for global stakeholder engagement, this is this much for governmental engagement," for example. And that the granularity of that inflation would be of interest for the community. The community could then, therefore, provide input and say, "Well, I think we spent too much on governmental engagement," or "Governmental engagement in that region and not enough in that region." I think that's the type of input that would make sense to receive.

That's where I think the granularity – I'm going to speak for her – the granularity of the information that's required and that I think a number of members of the community are frustrated with today is they can't get to being able to do that. That's where we want to go with the project level of information. Marilyn, please.

MARILYN CADE:

I like this. I can't look at you guys while I talk to you. I'm going to move over here so I can [inaudible].

XAVIER CALVEZ:

While Marilyn will speak, we will go for one more question because five minutes over the theoretical end of this meeting. Since we started late, I will let it go beyond a little bit. Thank you.



MARILYN CADE:

I'm really glad Suzanne is here. Marilyn Cade from the Business Constituency. We have an Ad Hoc Budget Working Group of our own, within the BC. We have learned more probably from the ccTLD work than from any other particular group, so I always like to thank our colleagues in the ccNSO for having really been the role model to help us.

The other group that has probably been the most helpful to us has been the contracted parties, in terms of the rigor that they put into.

Having said that, I'm going to say something else. I've been thinking a lot about how we are putting in place management systems but the management systems we're putting in place make assumptions about who we are as an organization that I don't think fit.

The reason I bring it up is the community said, "We want financial support for outreach and engagement." We thought that meant support to us to do outreach and engagement. What happened was that the Outreach and Engagement Team got significantly beefed up, lots of senior staff, lots of activities, and budget is being allocated to be spent on outreach and engagement at a regional level that bears no resemblance at all to the needs that were identified by the people who put in the request.

There is no ill will here, right? But there's a gap. We view this as having a top-down approach to solving a problem for a very different organization. We are a community-based – we're actually a set of tribes who come together on a regular basis to make sure that we have something in common to work on. The systems we're putting in place





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are now able to track how much money goes to Chris Mondini to hold business outreach events but those bear no resemblance to the original request that led us to ask for business outreach events.

When we ask for funding to do something, there's no mechanism to give us \$5,000 to hold a business outreach event in the Arab region. This would be the same thing for you guys.

There's a lot of this which is not being critical of where we're going but we are establishing a thought process and a set of measurements and a set of expectations that assume we're going to do everything in a very centralized staff-driven manner. Yet the community is looking to the budget to empower and support the community to be the agents of action in many areas.

By the way, [inaudible] actually the much more sustainable agents of action, because we're out there in the community. I mention it because to Xavier's point – or to your point, even – that you look at the budget and you say – maybe if you looked at something in aggregate, you would say, "Don't spend so much money over here, spend more money here."

If we were in agreement that the empowerment of the community to build and do the kind of outreach and participating, then we would be building a slightly different mechanism into both our reporting – we wrote a project proposal. As Xavier knows, we were kind of a pilot in the BC. We wrote a project proposal where we were required two of our groups to write a detailed project plan, schedule meetings, hire rooms,



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commit to do things in order to get a little bit of money, really. Then they had to write a report.

That's actually a lot of overhead and I'm not complaining about that. But if we are going to scale this organization to help you and my community and others, then we have to also be thinking about how our budget mechanism and our budget allocation mechanism is supporting this kind of distributed activity.

XAVIER CALVEZ:

Thank you. I wanted to make sure I understand one particular thing that you said about the lack of mechanism to ask for \$5,000 to organize a business meeting. You know very well the additional SO and AC budget request process, and therefore I'm assuming this is not addressing that specific point.

MARILYN CADE:

On a yearly basis, if I forecast really, really hard and I get people to commit and I write up a request, I can put in a request for a very limited amount of money, probably – I think it's no more than \$10,000 per constituency. But there apparently is an unlimited amount of money going into the Mondini budget, to be able to convene a breakfast here, a lunch there, rent a room here, because he has a different budgeting approach which is a year-long budget.

My suggestion here is yes, I can ask for \$5,000 or \$10,000. I'm in competition with every other constituency to do that and I'm not complaining about that but this is not a good attitude from the



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organization toward the community engagement. There will be small ccs who have the small challenge. If they were to do a regional outreach event in a region – and I’m trying to make us think about is this approach to how we are viewing the community the right approach as we build our financial systems or do we need to be thinking a little differently looking ahead?

XAVIER CALVEZ:

I don’t think it’s a financial systems point but it’s more an interaction with the staff and the definition of the activities of the organization at large.

I think the information that we provide and the granularity that we provide at the time of design and not towards the end of the process on the projects and the activities that are suggested to be carried out, I think the input at the time of design would help you be able to have more substantial discussions on substance with the staff that works on business development or business engagement, basically, to be able to design – provide your input to that staff to be able to see that input reflected in the overall strategy.

I don’t think it’s a financial system subject. I think it’s a strategic and tactical input into what gets done from a business engagement standpoint, as an example, which is the one you were [inaudible].

MARILYN CADE:

For example, if you actually allocated as much as \$100,000 per constituency to provide Secretariat services and a variety of other



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things, and we spent that money, wouldn't you expect to be able to report and track it? I was thinking it would have financial reporting implications.

XAVIER CALVEZ: To report and track the activities of – I'm sorry, I didn't understand what you [meant].

MARILYN CADE: Let's say that we were being given funding of \$50,000 or \$100,000 per constituency to hire a Secretariat, blah, blah, blah. Wouldn't the community expect us to have the same kind of tracking and responsibility for how we spent that money as if the staff spent it? That was my question.

XAVIER CALVEZ: There are Secretariat services that are provided and paid for right now [by] ICANN for each organization, right?

UNIDENTIFIED MALE: [Inaudible]

XAVIER CALVEZ: Well, yes, it's not a "no," so yes, there is. I'm not saying it's the one that you want but there is. There's a whole group of people who, by organization, provide Secretariat support. But that's not the support that you're talking about, then, right?



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MARILYN CADE: Let's take this offline.

XAVIER CALVEZ: Okay. Last question.

DENNIS JENNINGS: I'd just like to pick up Marilyn's point, because of course such expenditure would also be tracked and reported. It would be demanded. It's not an accounting or reporting issue. It's a philosophy of approach issue.

For example, I would argue that organization should not be given \$5,000 to do a project, whatever. Instead of spending, whatever it is, \$5 million, on outreach activities centrally, the organization should be giving half that in great big chunks. Like, \$1 million to the GNSO to do outreach. Of course it's accountable and trackable and so on. It's a philosophy of approach here that would delegate more to the community or to the organizations within the community.

In particular, I've always thought that the staffing the support organizations, that there should be more discretion within the support organizations on the deployment of – within obviously accounting and control, and if necessary, extra staff. Because I see one of the great threats to the organization is that you have a paid and very good central staff and you have an enormous number of exhausted, unpaid volunteers. I don't think that is a sustainable model.



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So I think [they're] nothing to do with accounting other than to assure that whatever is done is also rigidly controlled and reported on. But I think there's some philosophies here that also need to be explored for the health of the organization, but we're drifting off the financial [inaudible].

XAVIER CALVEZ:

I appreciate that comment. That's helpful. Because we are now I think 15 minutes beyond the point of the end of this meeting. I want to thank you very much, everyone, for participating and actively participating, so thank you for your comments. We will have again this session, as I said, tomorrow – not that you have to participate again. Once you've done it once, you don't have to do it twice but you can come as well if you would like. Thank you very much to everyone.

As I indicated earlier to you, we have circulated a sheet to have names and e-mail addresses if you would like to be included in the Finance Community Group, the Ad Hoc Group, we will include you and anyone else who would like. Thank you. Dennis, if you're interested. If it is not, you let us know. Thank you very much.

**[END OF TRANSCRIPTION]**

