LOS ANGELES – Finance Open Session
Monday, October 13, 2014 – 14:00 to 15:30
ICANN – Los Angeles, USA

XAVIER CALVEZ:

Hello. There are more seats over here if you'd like. We're getting ready for the presentation. It will be up in a few seconds. Thank you for participating. This is a public session and we therefore have remote participation. We'll check in a minute or two what remote participants we have present. Thank you for attending. I think it's the first time we don't have enough seats. I was going to say we have nearly all Board Members that participate in the Board Finance Committee present, so thank you to all of them to participate and be present. Thank you to the Board Members of the Finance Committee being present. It will be very helpful to have your input in this presentation.

I will start. We will check who we have present in remote participation as soon as we can. In the meantime, welcome to the Finance Public Session. Thank you for attending. As this ICANN Meeting is in LA I also have the pleasure to have most of the finance and procurement teams with us as well, so this is a welcome addition to the attendance. Thank you for coming. We'll go over the Agenda shortly. We'll start with a quick look at the end of FY 14. We are close to completing the audit, but we'll provide none-the-less a quick view of the financial position at the end of FY 14 so as to be able to provide you with a very quick understanding of where we are landing.

We'll then look at the FY 15 Budget process and its conclusion over the last few weeks, and look together at a few elements of it. We'll then talk about the forward-looking process for FY 16 and start with a framework of planning that Fadi provided a view of earlier this morning. We'll then talk about a revenue recognition change as well as an update on the audit of ICANN's financial statements. We have a few remote participants. After each of the sections we'll allow about five minutes of Q&A, and that will leave us with a little bit of time at the end for more Q&A. We'll limit ourselves to five minutes of Q&A at the end of each section, and Tarryn is going to time me.

If you'd like to be put in the queue for questions during the presentation, please raise your hand, and Cherry present here will make a list of the people in the queue. What I suggest to do, while we're waiting for the presentation, I'll address the last subject in the presentation because I don't need the slides for that. The last slide is to provide an update on the annual independent auditor. You may know that ICANN, as a not-for-profit organization is required to have its financial statements audited on an annual basis. This is as per the status of the organization. It's a standard type of independent annual audit, like most companies do. That's been happening since the inception of ICANN.

The organization had used the services of Moss Adams, an accounting firm present in the US and largely on the west side of the US, as well as participating to an international network. We have used the services of Moss Adams for about eight years, and the Audit Committee of the Board had been contemplating for a while the logical and natural evolution of changing auditors as the organization evolves. It's also

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considered a best practice to be able to rotate auditors on a more or less recurring basis. The best practice is between three and five years, and during the tenure of Moss Adams the partner changed after four years, from memory, so the best practice was respected in that case. But it was time to look at a new auditor.

We conducted an RFP, request for proposals, after the Audit Committee approved to proceed. We received five bids. It was an open RFP to anyone. We received five bids. Interestingly none of the big four accounting firms bid, for relatively simple reasons that they had a conflict of interest in providing services, otherwise to ICANN, either through the new gTLD program or for other subjects. As a result they were not interested in bidding on the annual independent audit. We received bids from the next four largest international firms, and through process of evaluation, which was presented to the Audit Committee, we retained one of those four firms; the fifth largest firm in the world, which is called BDO.

The BDO Auditors have started their work in April 2014 and are in the process of concluding their work in the next week or so. Are there any questions on that subject? Marilyn? Thank you. If you can provide your name?

MARILYN CADE: My name is Marilyn Cade. I'm one of the Officers of the Business Constituency. I'm actually quite pleased to see that the rigor of our COI process did appropriately eliminate a number of applicants, and I think that's actually good news to all of us. My question is more about the present auditors. I know auditors like to think they can audit anything,

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anywhere, any time, but we're quite a strange animal. Built into the bid, was there some underlying assumption that they would have a background also in auditing the not-for-profit world and the world that's more similar to the one we have? Including the fact that we have a non-tax status, which is extremely important to protect?

XAVIER CALVEZ: Thank you. Yes, the criteria included to have a very strong knowledge of not-for-profit in general. In that respect, BDO has a very large not-for-profit practice. This not-for-profit practice is headed by the partner who's on our Audit, so we benefit from that experience. As part of the RFP there was also a requirement to have the bidders demonstrate knowledge in technology companies in addition of not-for-profit, so that we also have the benefit of knowledge in accounting and auditing practices, relative to that type of company, which in some aspects we're a little bit similar too as well.

We feel that we did get that with BDO. Not all organizations were able to provide both aspects. In the COI, we didn't have much to apply it ourselves in terms of selection. The audit firms have very strong COI requirements and they ruled themselves out by not bidding, effectively. We didn't have, at the end of the day, to rule anyone out. Of course the bidders provided visibility as to their lack of COI. There's no Board Member of the Audit Committee here, but the auditors have repeated formally their lack of conflict, so we feel we're very strong on that point. Thank you for that question.

I'm now going to go backwards on the Agenda. We'll start from the beginning. FY 14. We'll look first at an overview of the operations

financials for FY 14. By operations I mean everything but the new gTLD program, which has its own set of books. Revenue, expenses, are fully segregated, so this first section looks at everything but the new gTLD program. The second will be the focus on the new gTLD program, and the third is the aggregation of the two. Next? Thank you.

Simply put, for the operations for FY 14, there's relatively little variations at the high-level between what the actual figures are versus the budgeted figures for FY 14. I fail to indicate here that we're talking about million of US dollars here. I should have put that on the slide. These are unaudited numbers, because the audit is not yet concluded. These are unaudited numbers. It's millions of US dollars. Our revenue is slightly lower than budgeted and you may remember when we looked at the forecasted numbers for the year in London, the main reason why that is the case is because the [new 17:28] coming from the fixed fee from the newly delegated registries was lowered at the end, from what we originally budgeted, as a result of the slower ramp up of delegations into the root of the new registries.

So we added up the year, if you remember, from this morning's presentation by Fadi, at 322 registries. We had a number that was a bit higher in the Budget, and therefore the revenue is a bit lower. Expenses are about on par and as a result the net asset change, which in other organizations is called profit or loss, for us it's either an excess or a deficit. In this case it's an excess of $6 million, which is compared to about the $8 of the Budget. This number includes both investment gains from our reserve fund as well as the repayment from the new gTLD program over the historical development costs. I apologize for the acronym here. This is what this means. You may remember that the

fees of the program included provisions for the repayment by the program application fees of the costs incurred by the ICANN operations to develop and design the program until the time it started.

Next please. This is now the new gTLD program's financials compared to budget as well. Larger variances here. Let me start by explaining as simply as possible one thing. The revenue of the program corresponds to the fraction of the application fees that had been received in 2012, being recognized in revenues during the year FY 14. The fees collected all upfront are progressively recognized as revenue, along as a [purator 19:50] of the expenses incurred from the program. The amount of revenue is directly a function of the amount of expenses incurred. These expenses incurred are lower than what the Budget was assuming, because the program, as all of you know, over the past 15 months has actually progressed slower than was originally planned. Remember that these numbers were basically finalized about a year and a half ago, in April 2013. At that time it was expected that the program would progress faster.

The other element that affected the difference between revenue, budgeted and actuals, you may notice that the ratio is not necessarily the same between the two. Based on the progress of the program we adjusted the financial forecast to extend it by two years until FY 17, which was not the case until then. So by spreading the same amount of revenue over a longer period of time the amount of revenue per year is actually lower than what it was before we extended it by two years. This is a simple mechanics of the program accounting.

Next? When you aggregate those two views together, operations and new gTLD, you arrive at the total revenue and expenses for the organization, which correspond to the scope of the corporation. Oddly enough, even that asset change of zero on operations with an equal amount of revenue to the expenses, investments have produced gains of $11 million, which was not expected in the Budget. We were not necessarily trying to do a lot of projections on investments, either gains or losses, especially last year when the variations of the market were relatively high. We have an $11 million excess compared to a $47 million excess in the Budget. Remember that that was coming essentially from the new gTLD program's recognition.

Let me stop here. I think there are questions. I know I have Chris in the queue, and then Jimson. Please Chris?

CHRIS CHAPLOW: Thanks Xavier. Would you go back a slide for me please? You may have said this and I may have missed it. "Higher LS" means?

XAVIER CALVEZ: Language services.

CHRIS CHAPLOW: Thank you very much.

XAVIER CALVEZ: Jimson?

JIMSON OLUFUYE: My name is Jimson Olufuye of the Business Constituency. Well, I heard this morning and you alluded to it just now that about 320 gTLDs were delegated, but at the same time, on the new gTLD domain, it's showed here that 417 domains were completely delegated. I don't understand.

XAVIER CALVEZ: The difference is that the number, 322, is stopped as of June 30th. On the day of June 30th we had 322 TLDs delegated at the time. Since then we have about 90 more. As simple as that. Thank you. Any more questions? Tarryn, how am I doing on time? Okay, next section please.

We're going to catch up all together on what happened since London with the Budget. We will go over an overview of the changes between the Draft Budget that was submitted for public comment and the Final Budget. We will look at the final numbers after those changes, and we'll go over the public comment summary and look more specifically at the USG transition costs. The reason for that is it's one of the requests from a number of community members to have more visibility on those costs, and as I indicated in a call with the registries a couple of weeks ago, I have updated the information that we provided in the responses to public comment, to provide a bit more detail. That's what we'll look at next.

July 1st was the end of the public comment period. It had started May 8th, from memory, so it was a 52-day public comment period. From there until about mid-August the staff worked on two things – consolidating the comments, reviewing them, distributing them across the staff members who had more expertize on each of the topics covered by the comments, and then consolidate responses, review

them. We also submitted them for review and summary by the Finance Committee of the Board. In parallel we also looked at our revenue projections that were embedded into the Draft Budget. We'll speak more about that a bit later. That led us to identify required changes to certain other numbers, which was consistent with the public comments received from a number of you, indicating that the revenue projections and the expense rejections appeared aggressive or too optimistic.

Can we stay there for a second? Thank you. On August 19th the Board Finance Committee was submitted with a revised version of the Budget, as well as a summary of the public comments for their review, and the BFC on that day recommended approval of that revised Budget to the Board. The Board approval happened on September 9th, which was the timing by which the Board met in Istanbul right after the IGF, as most of you know. That delayed a little bit the original timing that we intended on the Board approval. On September 23rd we finalized the publication of the responses to public comment. We'll talk about that a bit more.

I'm not going to walk you through the entire set of those numbers. This is the analysis that was provided and reviewed in relative detail by the BFC, as well as by the Board, on our revenue projections. So how much resources are we going to have? We had planned in the Draft Budget for a number of $114 million of revenues. Fast-forwarding three or four months, more information available, more perspective on the start of the FY 15 year, because we were in July in our FY 15, so we had much more tangible information to be able to revise our revenue assumptions. We developed a model of low, medium and high scenario, to try to also have a sense of sensitivity of our assumptions of revenues.

The medium scenario landed at $104 of revenues, and that's the number that was suggested to be approved by the Board, which is therefore $10 lower than what the Draft Budget was. Again, this was consistent with a number of comments that we had received during the public comment process, on how our revenues were growing, and on the assumptions that we had retained to calculate that revenue projection. One element I know a number of people here are looking at and had in mind, we had assumed originally that we'd have about 33 million transactions in FY 15.

The revised assumption for that number is 15 million of transactions to be generated over FY 15 by the new registries. Time will tell how right or wrong we are, but remember that this is to be generated by approximately between 322 an 1,000 registries that will be in the root by the end of FY 15, dependent upon the timing. So you can see at the top here the revenue change of $10 million that we just looked at. Consequently we revised the expenses down as well. If you bear with me for a second, there's two different things that happened. We reduced expenses by $10 million accordingly.

There's also an increase that we identified of $2 million of USG transition-related expenses, and we'll look at that more specifically in the section 2.5, which therefore drove a change of an increase of $2 million of the deficit. We had some savings also of capital expenditure, and here you can see that the numbers here are the same as here. This is reflecting that the USG transition expenses are covered by the reserve fund, and therefore funding from the reserve fund will be utilized to cover for those expenses. That's one of the assumptions of the Budget. As a result we had a balanced set of expenditures versus revenue before the balance changed the Budget at the end.

Next, this is a bit more detail on the expenses reductions. There's no hiring fees at ICANN. I've heard that word being mentioned earlier. It's not the case. We have spread over time the hirings that were included in the Budget and delayed them by about, on average, three months. So we're basically spreading and taking more time to higher, which is a softer approach. Travel, we also revised the travel. Here this is not a specific set of activities, it's simply asking the entire staff to look at their trips and cut one out of ten, whichever one works. It could be simply when you have three people planning to go to a meeting, can you guys do it with two instead of three? So then we save one trip.

That's the approach that's been retained. It's been distributed. It's relatively painless in the sense of it's not affecting an activity in particular. It's requiring people to be a bit more cautious in the way they plan, which is a result of that. Professional services a bit the same thing. We tried to reduce sometimes the scope, sometimes the price, negotiate a bit more. This is also entirely distributed across the organization. It's not one project or process specifically. We also affected the contingency, and Fadi, with us, will look very strictly at what funding is requested from the staff on unbudgeted expenses.

The USG transition related expenses, as I mentioned earlier, had increased by $2 million. So this is what the expenses that were in the operating expenses that are transferred to the USG transition bucket. We also noted that on the basis of not having sponsors for a number of the upcoming ICANN meetings that the gala, which usually is funded or sponsored by a sponsor or host of the country where we go, that in lack of sponsors we felt that it was more reasonable to not have a gala expense, which can be as you know quite significant. Effectively this is

three galas that we're assuming is not going to happen. That's actually $200 k per gala, which I actually think is on the low end of the cost of galas sometimes.

We also had capital expenditure reduction over several projects. As I indicated, there's no specific activity or project that's been taken out of the plan.   It's spreading across the organization, the reduction of expenses. The resulting Budget is this one. We talked about the $104 million of revenues. The expenses that result from that, and it's a bit complicated, but the expenses here include the USG transition costs. We'll look at those a little bit later. They therefore drive a slight deficit. The repayment of the historical development cost brings it back to a slight excess, and that's only the operations side of the Budget.

The new gTLD side of the Budget is very likely affected by those changes, very minimally.   In yellow you have the areas impacted by the $10 million change of revenue and expenses. These areas are very minimally impacted by adjustments on the program, and the total is here. Let me stop there, because I think Marilyn had a question on the numbers.

MARILYN CADE: Thank you. Is Chris Chaplow on the phone Carol? No. I want to go back to the numbers, what you call transactions. Transactions, to those of you who come from the computer world, translates into network transactions. I think in that case you meant domain names registered at the second-level, is that right?

XAVIER CALVEZ:	Nearly. Transactions, as per the contract, mean each annual increment of a registration, which could be five for a five-year registration of one name, or a transfer, or a deletion.
MARILYN CADE:	Okay. Let me be specific about my question. This is Marilyn Cade speaking, the CSG Officer for the Business Constituency. In my view there were irrationally exuberant forecasts about the number of registrations that would take place in the new gTLDs, and many of us asked for economic studies and needs assessments, and we didn't get what we asked for. This is important to us, because we are very concerned about what we call "fallover". Failure. On the basis of the number of new gTLDs that are in the root today, and the number of paid-for registrations that represent revenue to…

I want to be careful here. I refer to ICANN as the not-for-profit corporation, not the corporation, because we've got to be careful that we don't keep using this word "company" and "corporation" and mislead people, including the new applicants, to think that we're just a commercial enterprise selling franchises. We're not. So we had a forecast of the number of new gTLDs. Can you help me understand, based on that forecast, how many actual paid registrations do we have, paid, not given away? Because this registry gave away 10,000, this one gave away 25,000.

How many are paid? Where are we on a forecast if we have 300-odd names in the root, how many names are actually producing revenue? Then we can actually understand whether or not there is going to be a

viable base of new registrations that represent predictable revenue to the not-for-profit corporation.

XAVIER CALVEZ: The number of registries that produced revenue in FY 14 is 322, simply because that's the fixed fee part of the subject and everyone contributed, as per their contract. You're speaking I think most about the transaction part of the fee, which, to make it simple, is triggered by a registry registering a number of transactions of 50,000 or more during a quarter or during four consecutive quarters. Two domain names exceeded that 50,000 threshold by the end of June – .berlin and .guru.

I want to open the spreadsheet that provides the assumed number of names that do the same thing in the FY 15 revenue. I have the number. I will provide the specific answer. There are assumptions behind this number of how many registries above 50,000 transactions per quarter, and how many registries remain under 50,000 transactions per quarter.

MARILYN CADE: A real quick follow up question is why would you decide, in a highly specialized gTLD, and I'm going to use .arrow from the past, there are 1,000 possible registrants. Why did you decide to use 50,000 per quarter? Does that mean we don't know what the count is for the others, or is there some other way of capturing the count?

XAVIER CALVEZ: The 50,000 is the contractual threshold as per which a fee is charged. Under it there's no fee. No transaction fee. For modeling revenues, I

need to have an assumption of who's going to be generating a fee, and under 50,000 transactions, if you have 49,000 transactions you don't pay any fee to ICANN for transactions, as a registry.

MARILYN CADE: Since we are the franchisee, what do we get out of having a registry that's not paying us any money after they've paid the initial fee? Do they pay another annual fee?

XAVIER CALVEZ: They pay a fixed fee of $6,250 per quarter, or $25,000 per year, and a transaction fee that kicks in above the threshold of 50,000, that I just mentioned. There are two other questions.

OLLIE HOPE: Hello, I'm Ollie Hope from the Host Europe Group. I just wanted to clarify that. You're saying the 18 cents per domain? Is that what you're referring to? If you don't have more than 50,000 registrations, the registrant or wherever we pass that up the line, that doesn't get paid?

XAVIER CALVEZ: It's 25 cents, but yes.

OLLIE HOPE: My apologies, 25 cents. But we've still got 15 million… We're expecting… [audio cuts out 43:19]

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XAVIER CALVEZ: In theory, any of these reductions affect all the departments of ICANN generally, because it's been spread across everyone. What I would need to check is with David Olive and Rob Hogarth whether the specific project, where what you have in mind, resides, in terms of budgeting, have been affected. Let me take an example – the internal travel of staff for David's department has contributed something to the $1 million that's there for travel. What I know he has not affected is the SO and AC additional Budget requests that have been approved. That dollar value was not affected by the changes.

We've kept that aside. As an example. So the CROPP is not affected and so on. It also doesn't affect staff, other than if there were specific hirings planned in the next weeks, that have been delayed further. That's the only delay on staff that there would be, for specific support. Marilyn, I think you have a follow up question on the same subject?

MARILYN CADE: I do. We are the community, we're not volunteers. We don't call at the IETF, we don't call engineers and go and work on standards as volunteers. We are stakeholders, we're not volunteers. We're building this organization. We are urged to work to continue to diversify the participation from developing countries of all categories – governments through civil society through business – to participate. We fought very hard to get a rational approach to a very limited amount of support to doing our job, not as volunteers, which includes travel funding, but it

also includes on our part our active participation in events that are being organized at a regional level.

When you mentioned that for instance if there were going to be three ICANN staff, you might cut it back to two, for us in building regional events – and I'm looking at the ALAC but also at Jimson – in building regional events, those speakers may be critical to the program that we put together and are investing our own resources, time, have partnerships with ministers, CEOs, etcetera. Finding out that now, after we made these commitments based on long ago commitments, we're going to have the feet cut out from under us on whether we get the right speaker.

I'm a little worried about how this may affect us, because I do not believe that David Olive and Rob Hogarth actually have the granular understanding of what we're doing out at that level. I'm not being negative about great staff, I'm just saying they may be making assumptions that do not yet take into account the implications on whoever's actually organizing those events or speaking activities out in the… Right?

XAVIER CALVEZ: What I suggest that we do is we follow up with a number of departments that are more specifically providing supports to the types of events that you have in mind, because I would actually not assume that your feet are being cut from under you, from that perspective, in the sense that staff, when reviewing the changes required to the Budget to save money for example on travel, has paid attention to not affecting community involved or community driven meetings.

Now, I'm speaking in a general fashion, and what I need to do is I will use the help of David, as well as maybe the Security Department that provides a number of speakers to various events, to specifically say, "What event, what trip, what individual staff members, will not participate in something that was originally planned to be attended to, as a result of the change?" I doubt that there will be anything on the list, or that the list will be very long, but I will make that request and provide the response. [unclear 00:04:57] and if I may it will be the last question on this section so that we can move forward.

TARRYN: Just a quick time check, 35 minutes.

[LEONI TOURE]: [Leoni Toure 00:05:04] or .ru and also the SOP Working Group. Just three points. First of all, you just mentioned that there's no higher freeze, so shall we understand that this $1.4 million is what's actually pending? I wonder how many jobs will be ultimately added. Is it that final cost we should take into consideration over time, let's say for another three years to go? Second question, very quickly, we do understand that certain registries, so far, have failed to hit the threshold of 50,000 registrations, which means that say in a year or so they might be willing to go out of business. So how about the costs of that emergency backend registry operations? Are they accrued or accounted somehow?

Third, no cancellation of projects or significant activities. If you could just help us discern this statement? What kind of project are we talking

about, and what kind of activities should be labeled as significant? Thank you.

XAVIER CALVEZ: Trying to go back to the first point about hiring. The $1.4 million is the cumulative effect of delaying a hire from say October 1st to January 1st. That saves three months' worth of labor costs for that position. The $1.4 is the aggregation of having done that across all hirings that we planned for in the Draft Budget. I'm probably not answering your question with that. I didn't catch what you meant about the three years forward?

[LEONI TOURE]:   …TLD paid three years in advance to stay alive. [unclear 00:07:24].

XAVIER CALVEZ: No, but that's the [unclear 00:07:27] question. I didn't think that was the [iburro] question.

[LEONI TOURE]:   No, it was. Exactly. If they were out of business and we need to transfer their operations under [Iburro], what are the costs, and if they –

XAVIER CALVEZ: Yes. I was going to go to the [Iburro] question after I – I thought we were still on the personnel questions. Sorry.

[LEONI TOURE]:   Sorry. Then projects and significant activities.

XAVIER CALVEZ: Yes, so [Iburro], as you know, the applicants when they become registries, the registries put in place an [iburro] instrument, financing for the costs. This financing is not accounted for in the books of ICANN until a failure happens. I would want to remind you that it's not because there's only two TLDs out of 322 across that have crossed the threshold that we can talk about failure, when there's not even a year's worth of activity in this, right at the beginning. We can talk about failure two years from now, but failure at this stage is irrelevant. We don't know.

Just as a reminder for everyone, the first TLDs were in the root on the 23rd of October, so nearly a year ago. The first ones have eight months of activity behind them, at the end of June. We're really talking about a ramp up that we'll see maybe in a year from now how things look. The threshold of 50,000 is very difficult at this stage, with the information that is available, to predict. It's a real assumption; an assumption that we need to start backing up more and more with analysis and so on In Akram's team in GDD, he's developing the tools in market analysis to try to have a better understanding of that for various purposes, including revenue projections.

No cancellation of projects or significant activities. What I meant by this is what I'm going back to, which is the fact that the savings requested from the staff to save about $10 million, we're spread across all activities. That's why I'm saying it's not significant. On an individual project basis, maybe there's a trip that's been taken out of what that project was going to require. It's not been a cherry-picking of, "We're

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going to cancel entirely that project, it's going to save $200k." That didn't happen. If there was a $200k project it may now be at $190k because we're going to do one trip less, which is why I was saying it's not significant.

Let's move on. Quickly, the public comments that came out of the public comment process, we had 51 comments in total, which is less than last year. We had about 82 last year. Two organizations did not manage to submit their comments on time, At-Large and the registrars. However, what we did is that we did look at the comments that had been submitted by those two organizations and sanity-checked that the comments submitted by those organizations overlapped by comments provided by other organizations that did submit on time, so that we don't lose the benefit of the comments provided, even though not on time, and that we can try to make sure at least overall that we provide answers to those comments, indirectly, through answers to the organizations that have provided comments on time.

By the four objectives that you see – the distribution of the comments – not surprisingly quite distributed, but there's a lot of interest in the multistakeholder model evolution section of the Budget. Next, this is by topic what the types of comments are that were received. This is just a snapshot of those comments that were generic. We had of course a number of comments expected on each portfolio of the entire Budget. A reminder that there were approximate 60 portfolios, approximately 200-300 projects displayed. So we had a number of comments on a project-by-project basis. I'm not speaking about those here.

IANA stewardship transition was a subject of comments and questions. "What's in the $4.7 million that was in the Budget?" "Revenue assumptions are too optimistic and expenditure is too high." That's what we had talked about, which also contributed to our reduction of those revenues and expenses. "The link between Strategic Plan and Operating Plan requires more information and clarification." There were also a number of comments on improvements, notably on the fact that we have project-level data in the Budget. That was well received and we'll therefore continue to strive to put as much project-level data in the Budget as possible.

Also well received were the inclusion of deliverables and key success factors in the Budget. Those were the well-received parts. USG transition costs, Carol Cornell is present and she is responsible of the Project Management Office but she's also specifically in charge of project managing the USG transition program at ICANN. There are the four tracks that you recognize here, and this is a breakdown of the now $6.9 million. The Budget has $6.9 million. There is a personnel section, travel and meeting section, professional services and a total.

This is the number of FTs included that per track are expected to contribute. This is a relatively limited list in that it's only the people who have a very direct and large amount of their time spent on each of the tracks. There's no management time included, or indirect time included. The only management time included here is 50 per cent of the time of Theresa Swineheart, considering the amount of dedication that she's putting into this specific program – otherwise it's non-managerial type of headcount that's included in here.

Travel and meetings – if it's helpful, this track number one includes four meetings over the period; meetings similar to the one that happened in London in July. It costs about $250k to have these meetings. There's about four in here. For track number two there's two meetings planned and included in those numbers. I want to make sure I provide that information just so you understand two things: one, this is the number of trips we're assuming; two, these assumptions, in terms of the number of trips, are determined by the decisions for example of the ICG as to how many times they want to meet. By the way, that number has changed several times between the time we fixed those Budgets today, and I'm sure it will change tomorrow again.

We are very dependent upon the decisions of the Working Groups that drive the work here, which a number of you are part of, and also of the visibility forward of the activities on the USG transition project. There are a number of areas – and I can take one as an example. Here you have an amount of $0.6 million for the track number three. These are an assumption of legal fees. It's $600k and there's very little granularity of information that we have available, to be able to determine effectively what the ultimate cost will be. John Jeffrey provided this estimate. He basically told me, "This is an envelope. I don't know how much we're going to need, effectively, but when I look at similar types of programs in the past I think $600k is as reasonable as anything else." There's no more assumptions than that behind that number – no more detail.

Similarly, the number of trips, it's something we're trying to quantify on the basis of what's already happened, but how many meetings will the ICG ultimately have is a decision that even the ICG currently does not

have visibility on. There's a relative of value and amount of input that we've been able to use to be able to produce those estimates. They'll continue to evolve over time and we'll make sure we provide the on a recurring basis, as well as the rationale for changes.

Let me stop there to see if there's a question, because I'm sure this is a subject of interest and I want to make sure we address questions or comments. Marilyn?

MARILYN CADE: Thank you for this. I'm aware and probably contributing to the fact that the number of meetings of the ICG is growing, since the BC is taking a particularly strong interest in it. My question is not just about this chart, but given that we've managed to persuade the Board and senior staff of the wisdom of the community's visions on how to address the accountability mechanisms, and we're moving ahead with a cross-community working group on that – that wouldn't have been forecasted, but there was a staff-driven and CEO-driven approach, which is now in the process of being reformed, right?

Is there a chart that estimated the cost for the development of the accountability mechanisms? Given the change in direction, I assume that it has to be updated and changed? But it would have had cost associated with it. Was that actually factored in, or maybe not yet?

XAVIER CALVEZ: One, not yet. Two, even if we would have the information, because a lot of the data that we were using in the previous version of this, when it was $4.7 million, were envelopes and high-level estimates. My point

being by saying that is that they were not built from the ground up of aggregating together the pieces of cost for each activity, because we didn't know what the activities would be. So it was an envelope definition, which is as good or as accurate as the assumption that is underlying to it. So having said that, what you specifically refer to has not yet been reflected, and will need to be translated into activities and then costs, to be able to be reflected. There's a question behind you.

[MISHOME]: My name is [Mishome 00:20:40] I just want to get a brief explanation about why the professional services is quite higher than everything else that's in the columns? For the IANA transition I'm thinking maybe because of the external secretariat, maybe? But I'm wondering, is there going to be an external secretariat for the accountability?

XAVIER CALVEZ: Professional services is one of the categories of costs that we use to display our financial information, generally speaking. It includes everything other than personnel, travel and meetings, for the purpose of this presentation. You're right for example that the externalized secretariat services, for example for the track number one, is included in this number, in the $1.6 million that's here. There's a number of other placeholders for professional services types of costs. For example, legal fees are also included in this category, as well as consulting services, although not yet for a defined purpose.

That's other than when we build this considering the complexity of the subjects, we assume that there could be some spend on consulting

services. If those activities are not carried out by the groups then those estimates will be removed entirely. It's just an estimate at this stage. As it relates to the secretariat for the track two accountability, I actually don't know if an external secretariat will be put in place. This is a question for that group, but at this stage there's no specific estimate for it. Thank you.

CHERINE CHALABY: Marilyn, I thought you were going to ask a follow up question and say if that cost goes up, where will the money come from? That wasn't on your list?

MARILYN CADE: Thank you Cherine. Actually, I would make a statement: as that cost goes up, don't take the money out of the support to the AC, SO, SG, and if you do, at your peril.

CHERINE CHALABY: I hear you.

XAVIER CALVEZ: You asked for it Cherine.

CHERINE CHALABY: I just wanted it to be on the record. That's all.

MARILYN CADE: If you'd like to be escorted out of the room in the future by a large group of people…

XAVIER CALVEZ: Preferably after the end of the meeting, right? Next. FY 16. Let's talk about FY 16 now. Those of you who attending the Opening Ceremony this morning have seen this slide presented by Fadi. We are, in terms of development, right here, with a Strategic Plan that hopefully will be approved by the Board at the end of Thursday, that a lot of you have participated in developing over the past 18 months. In different organizations what is understood under a Strategic Plan is what's actually spread under two different documents at ICANN.

The Strategic Plan defines at the level of objectives and goals the vision in the objective to be delivered at the end of the period. What it doesn't yet do is say, "How are we going to get there? What are the actions that are going to be delivered along the way to achieve the objective?" That information is part of the Operating Plan, and of course it complements the Strategic Plan. We have, as a result of what the Strategic Plan contains, the staff has developed a draft of the Operating Plan over the five years, year-by-year, area-by-area. What are the deliverables, the milestones, measured with KPIs, indicating the risks.

Dependencies are basically – to try to make it simple – if some deliverables require that an application is being developed, then dependencies are identified as, "We need this application to progress." So that's what a dependency is. We have therefore the five-year phasing of the activities that achieve the objective set out in the Strategic Plan. That's what the Operating Plan will contain. Of course it

will include also an overall financial model that provides an estimate over the five years of a revenue for the organization and envelopes of expenses for the organization over that five-year period, and of course a definition of excess or deficit.

Of course, this model is currently built on the basis of balancing expenses and revenues and not exceeding anything. This is a Five-Year Operating Plan that supports the implementation of the strategy. The next stage, once we have a Five-Year Operating Plan, is to develop the Annual Operating Plan and Budget that supports the year one, or two or three, on an annual basis, of this Five-Year Operating Plan. Of course, this Operating Plan on an annual basis is simply the drill-down, more detailed version of the year one of this Five-Year Operating Plan.

Then once we have the One-Year Operating Plan then we quantify the costs of that Operating Plan and that's what the Budget ends up being. Where we are now is at the end of the Strategic Plan, as Fadi indicated, after the meeting we will provide the Five-Year Operating Plan and we'll publish it. It will be submitted for public comment, and those public comments will be taken into account to develop the One-Year Operating Plan and then the Budget. The planning of all that is something we're still trying to finalize, and those Board Members that are present can attest to the fact that we've extensively discussed the subject over the past few days with the Board, to be able to define the type, sequence and amount of interaction and public comment, notably, we insert into the FY 16 plan to be able to get to conclusion.

Next slide please. What we need to get finalized, which ideally we would and have in the past presented during the fall Meeting in October

every year, is the plan for the development of the Budget of the upcoming year. Right now we're trying to finalize this plan and by the end of October we need to have it completed and provided for review by the community. So we need to do that by the end of October. It needs to integrate basically the comments from the Five-Year Operating Plan public comment period, so that we can take those comments into account of the Annual Plan and Budget.

We then need to complete the Operating Plan and Budget and submit it for public comments, receive those comments, respond to those comments, and in a timing that allows to have Board approval by the end of June. We have just talked about the fact that the Board approve the current Budget for this current year early September. The plan on an annual basis is of course that this approval is obtained right before the year that it's provided for is starting. So the Board approves the Budget ideally no later than the end of June, and then the FY commences right after, in July.

So our target of course is to get the Board to approve the Budget by the end of June. It will require a lot of effort to fit within the next nine months, or eight months, the entire set of activities in sequence, that allow to complete this approval, while having the right amount of interaction between staff, Board and community, to complete these plans. I want to be able to come back to this at the end, if we have time, because I'd like input from those community members present into that question, and I'll come back to it.

I wanted to also update you on a revenue recognition update for the financials of ICANN. We talked a little earlier about transactions and the

fact that ICANN collects fees from registries and registrars that are based upon calculations that involve transactions. A transaction is the annual increment of a registration, or a transfer, or a deletion of a name. That information is provided to us by registries and registrars on a monthly basis, and that allows us to calculate the fees that are then billed. We bill every quarter the registries and registrars, for the amount of transactions that have occurred during that quarter. Of course the bills are issued right after the end of the quarter once we have the information.

The revenue corresponding to those bills was booked over the duration of the multi-year registration. So when we had in the reported transactions a transaction for a Five-Year registration of a name, the corresponding revenue that's been billed during a given quarter was spread over five years, in my example. We have conducted a certain amount of accounting analysis of the accounting principles, to determine if we should continue to do that. Considering the fact that the revenue is actually earned immediately – one, it's non-refundable. Two, the revenue is actually not tied to the activity that supports the registration during the time of a registration.

The contracts and the obligations that ICANN has with the registries and registrars that generate the revenue, are actually unrelated to each individual transaction. There are simply permanent obligations towards the registries and registrars. As a result, the revenue does not have to be recognized over the duration of the transaction, but should be recognized when it's built. This is what we're doing going forward. What are the impacts? Instead of having a liability on our balance sheet, represented by the revenue that was not yet earned out of the [unclear

00:33:23], we're not going to have that liability anymore. Therefore our financial statements are going to be a lot more simple to read, because simply we book revenue when we built it. As simple as that.

From an accounting standpoint, it's a very significant simplification. I don't know if you can imagine tracking over a ten-year period individual transactions on a monthly basis, per TLD, per registrar, but it crashed several computers. We're not going to have to do that anymore. There's absolutely zero impact on cash or on bills. It's simply the timing of recognition in the books of the revenue. The bills stay the same for the registrars or registries on a quarterly basis. The cash of ICANN is entirely unchanged. Our auditors have reviewed the analysis that we conducted and agreed with it. Are there any questions out of that technical subject? Chuck?

CHUCK GOMES: Chuck Gomes from Verisign. First of all, let me say that I don't know that I really have a problem with the change in revenue recognition, but I'm not sure I agree with the statement in the middle there that says there's no ongoing obligation over the duration of the registration, because there's obviously an obligation to continue to provide the services to registries and registrars through the length of that registration. Maybe it's good enough to just leave that, because like I said, I don't know that I really have a problem. I certainly understand the simplification, and probably it's a lot easier for the community to understand it as well. You don't necessarily have to respond if you don't want to.

More importantly I'd like to go to the previous slide if that's okay, because we haven't talked about that one yet? The key – and you've

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heard this before – is when that public comment process in the next to last bullet happens, because if it happens early in the year so that there's plenty of time for the Board to respond and react to the comments that are submitted, which hasn't happened in the past because there wasn't enough time, then that's good.

But if that happens like we've done in recent years, where it happens in May and then the Board approves it in June – then bottom line is there's no time for any substantive changes and we're back to where we've been already. So what's your prediction for FY 16 in relationship to what I'm asking there?

XAVIER CALVEZ: Two elements in response to your question. There is a simply reality, which I know you know well. That's that providing a lot of details early is the challenge, and it's always a compromise between the amount of information that can be produced very early in the process, because you just have simply less time to produce more information. The earlier we try to produce information, the least amount of granular information we can provide. Having said that, the question is how can we manage to interact with the community through the process in order to not let all the input from the community come at a time when it's difficult to take into account?

That's directly what you're pointing to, which is when the comments come, at the end of the public comment period, towards the end of the FY, May, June, then there's very little time for the staff to turn around and produce responses, and for the Board to consider those comments and responses and basically affect the Draft Budget. So this year we see

the opposite of that. We've been able to effect changes versus the draft, but it carries us through September. So the cycle takes a certain amount of time.

One element that you know, Chuck, we've tried to work through, and have in various degrees either succeeded or failed to complete in the past, is trying to allow input upstream in the development of the budget. So break down the information into phases of development and communication, so that input can be provided upfront on those pieces of information, so that the input from the community does not come only at the end. That's one of the questions that I wanted to be able to ask to the community members here, and I know you would have input into this, Chuck.

We really have three phases between those two processes. We're going to issue a draft of this for the community input in the next weeks. This is a fundamental piece of information. It absolutely requires community involvement and time to comment on. So this is going to be one public comment process. After that, what we have intended to do in the past is trying to break down the development of the Operating Plan and Budget into two phases – one, Operating Plan for the year. What are we going to do during the year we're planning for? Description of objectives, milestones, deliverables, on a portfolio basis and where relevant on a project basis.

If we could get input on that as we develop the Budget, before we produce the draft, then we have a chance to receive input that's structural about telling the staff, from the community, "You should spend more time on this, you should do more than that," or, "You

should take this out of the Operating Plan because it's not relevant." That input we could take into account. Once we have that, we can translate that into a resource quantification and numbers, and then develop the Budget. That's the third phase. First phase, Five-Year Operating Plan, second phase Annual Operating Plan and input on that, and then third phase, Budget and input on that.

In my view, if we'd do the second phase, the third phase would simply be a sanity check, verification, that the actions included in the Annual Operating Plan that have been commented upon are translating correctly into numbers, as opposed to a first input on everything. Therefore, the way I'm describing it, could lead to three public comment periods in the next eight months. That's the question that I have – how are we all going to do this? I can tell you from a staff perspective I think it's impossible in terms of amount of work, simply because in addition to the graph Marilyn is trying to show – which shows all the meetings in Internet governance that are going to happen over the next eight months –there's the ICANN Meetings, and the fact that basically a public comment process takes us about three months.

If it lasts 45 days between upfront preparation and responses, and then decision-making on the outset of it, it takes at least three months. I think for some of them more like four. So there's just no way to fit three sequential… There's no way. If we make them overlap, we can, but it's extremely difficult to fit three public comment processes, one of each of Five-Year Operating Plan, One-Year Operating Plan, and the Budget. So the question that I have for you guys who have participated in the past, or for anybody else who has a view on it, is should we group together

the first two; Five-Year and One-Year OPs together, and then do a second public comment process on the Budget?

Of course also repeating the Operating Plan that supports the Budget, and that will have been commented on with the OP? That's two public comment processes, so it's basically grouping together the first two. Or, do we do the opposite? Do we group together the Annual Operating Plan and the Budget, and leave for the first public comment the Five-Year OP? The issue with that one, just so we're clear, is it doesn't allow to disassociate and receive input from the community on the design of the Annual Operating Plan, because it will be produced along with the Budget, towards the end. So we're back into the model that you were describing, Chuck, in that alternative. Your input on this would be really helpful. I have Marilyn and Chuck.

MARILYN CADE: I like to think about this just a little bit differently. In the room today, how many of you here have been in less than three of these meetings at ICANN? Less than three? On this topic? Chuck and I are among the old-timers here, and one of the things I've been thinking about for quite some time, and I want to congratulate you on the effectiveness on the choice of the time for this meeting, because you've got much larger attendance than we've gotten at some of our other sessions, because of the overlap where some of us have not been able to come but have really wanted to. That's one point.

The second point is some of this needs to be done in more of a workshop type environment where we would benefit be being face-to-face for four hours on a Friday afternoon, before or after, where people

slog through, understanding the documents, and then provide maybe high-level responses then, and then are prepared to go back and work with their communities to develop the written comments. I'm going to park that thought again, because I think we are really missing the harnessing of more interested participants of the community who may find the documents overwhelming. That's point number one.

We have, in the BC – and Tony I believe can comment on the ISPs – but the ICP as well, have been complaining about the public comment periods being too short and too frequent. It's impossible for me as a BC officer, and I look to Jimson, to agree to three public comment periods in that period of time and expect to still be allowed in the room of the BC. So two ideas – but I really think we've got to acknowledge that some of our work must be done face-to-face.

SPEAKER: Thanks. Before responding to your request for input on the ideas, as you well know, all this relates to ATRT 2 Recommendations, with regards Budget transparency and so forth, so I just mention that for people's information that may not have made the connection there. Obviously I've got to do a lot more thinking here, but if I was to pick between the two alternatives you gave, I think I would go with the first one that you said, where you combine the Five-Year Operating Plan with the Annual Operating Plan and then go to the Budget. But a lot of it depends on the timing of those, and it depends also on the level of detail in the Operating Plan.

Because we could be right back in the situation we're in right now where if we don't get enough detail in that first phase, the two combined

XAVIER CALVEZ:

phases, and we have to wait for the detailed budget, and we get the detailed budget in May, we're in the same place we were.

Understood. Very helpful. Thank you. Cherine?

CHERINE CHALABY:

Let's put some timing on that to give you a feeling. The Five-Year Operating Plan, the idea was to very shortly after this morning issue it for comment. So you have November, December to comment on it. It is high-level. It's not a very detailed level. The degree of scrutiny in it, because projecting five years ahead, some of it is going to be arithmetic calculations rather than knowing the exact amounts. So the idea was to do this immediately after issuing this, and then you have two months in which you may comment, and the comments are going to be more general rather than very specific.

Then in January, February, we will then issue the first Operating Plan Budget Plan for the year. The advantage of doing that is if there are any corrections that come out of the Five-Year Operating Plan, anything that we'll need to adjust the Annual Plan with, we will do it. Then you'll have that coming afterwards, and then the other one will be really towards the end of the FY, so there is a real gap then after that. That was the idea of the three – one immediately after this, one in January, and one around about the May/June timeframe, something like that. Earlier than May, sorry.

CHUCK GOMES: Thanks Cherine, and if I can respond to that? The problem though is that whether you do it in three or two, up to now, it's been very difficult for us in the community to analyze carefully enough, because of the level of detail that we had until the May one. Then the May one, when you respond to that, it's too late to make any major changes. The third one.

XAVIER CALVEZ: The third one would be end of April, early May.

CHUCK GOMES: So we're in the same boat we've been in, unless there's an increased level of detail in at least that second one.

SPEAKER: We were thinking this year of not having that second comment period at all, on the basis that we would be working together to produce the first draft, so that there would be no surprises. The idea is that there would then be a comment period and then there should be no major change after this. So we were going to eliminate it but we said, "Look, this is the first year of changing from the way we worked before to the way we work now." Let's leave another one just cautionary – but there should be really very little work in that second period.

CHUCK GOMES: Thanks. You said two key words – working together – and I think that's what Marilyn was getting at. If that in fact happens, leading up to that final one, that adds a new dimension that has real potential, I think.

XAVIER CALVEZ:

Let me interject here with additional facts in this conversation. This is predicated on, as you said before Chuck, providing sufficient amount of information early enough. The second public comment period that Cherine was alluding to, on the Annual Operating Plan, needs to happen at a time that's sufficiently early so that it's output can be taken into account for then the next phase. The challenge we're seeing right now is that being able to produce that One-Year Operating Plan so that there's enough information into it that can be useful for comment, is going to take an amount of time that brings us past the January time frame.

That's the issue. So the bottom line of this conversation – and I recognize it requires more detail and more information – is that to Cherine's point, we'd like to be able to have that sequential of providing information, receiving input back. The challenge that we find is producing sufficient information early enough so that there's meat to the bone in commenting on the data. What I'd like to continue doing with a number of you and others who are not in the room, during this ICANN 51, is continue to obtain input on that and try to provide you with also a few…

We've done two scenarios – the three public comments, the two public comments. We owe to the Board that feedback as well, so that it can be provided to the Board and the Board can weigh in, so that we collectively determine what we think is the better solution. Cherine?

CHERINE CHALABLY: Just a thought, a further alternative – I feel that if we provided the Five-Year Operating Plan together with the One-Year all in January, I think you guys would be completely snowed under. It would be too much to comment on. The idea of providing the Five-Year one earlier, there's a gap so there's time to absorb it. What we could do is, when you issue the Five-Year one, you can give it a much bigger public comment period so that it actually finishes to coincide with the second public comment period. That kind of thing would give the community a much longer period to comment, and there is the One-Year. Just a thought.

XAVIER CALVEZ: Yes. In the option of combining together the Five-Year Operating Plan and the One-Year Operating Plan public comment period, what we thought was, "We're going to provide the Five-Year in the next few weeks." The One-Year would take longer to develop, so between when we provide the Five-Year Operating Plan, in the beginning of the public comment period on the One-Year Operating Plan, which would be later, that's an amount of time that's available to work through the Five-Year Operating Plan.

So let's simulate the exercise. If we would say we provide the One-Year Operating Plan at the end of February, for example, and we have one and a half months of 45-day public comment period finishing in mid-March, we could say from the end of October to mid-March you have four to five months to comment on the Five-Year Operating Plan. That's a mistake and I think that's what you were thinking.

CHUCK GOMES: That sounds better. That's better than getting what we have been getting early in the year. I think it sounds like an improvement. Again, the key is what you said, it's the working together and providing means for us to do that so that we then have a meaningful input before the Board makes its final decision, which hasn't been the case because of the limited detail, so far. I'm willing to work on you on that. I don't have the perfect solution.

XAVIER CALVEZ: You have. This session comes to an end, because we're over time already. I apologize for that, but I thought it was an extremely useful discussion. Thank you for your participation and thank you for everyone's contribution in those materials and in the session. One quick question Marilyn?

MARILYN CADE: I'm just going to say that I don't hear the voice of the cc's commenting on this time frame, although Dotty's here, but I think others are not. I would just say, given the work that the cc's traditionally do, maybe you could catch up, Dotty and you and others?

XAVIER CALVEZ: Absolutely. I definitely intend to do that. There's a few people in the cc's who usually participate and who have valuable input as well. I will do that. Thank you very much to everyone.

[END OF TRANSCRIPTION]