YESIM NAZLAR: Good morning, good afternoon, and good evening for everyone. Welcome to today's joint Finance Department and Finance and Budget Sub Committee working group teleconference, taking place on Thursday, 31st of March, 2016, at 1300 UTC.

On the English channel, we have Tijani Ben Jemaa, Wafa Dahmani, Maureen Hilyard, Sebastien Bachollet, Olivier Crépin-Leblond, Alan Greenberg, Tim Denton, Daniel Nanghaka, Douglas Onyango, Cheryl Langdon-Orr, Mona Al Achkar, and Glenn McKnight. We have apologies from Humberto Carrasco and Ali AlMeshal. Currently, we don't have anyone on the Spanish channel, and from staff, we have Gisella Gruber, Silvia Vivanco, Xavier Calvez, Taryn Presley, Becky Nash, and myself, Yesim Nazlar.

Our Spanish interpreters today are Veronica and David. And finally, I'd like to remind everyone to state your name while speaking, not only for transcript purposes, but also for interpretation purposes as well. Over to you, Alan. Thank you very much.

ALAN GREENBERG: Thank you, Yesim. This call was scheduled largely because in Marrakech, there was a Fiscal Year '17 budget meeting scheduled, and unfortunately no one from At-Large could attend either due to prior commitments or the late scheduling of the event. It seemed that there were important enough issues going on with regards to Fiscal Year '17 that we really did need to make sure that we were fully briefed, and we asked Xavier to come and give us that talk right now, or at least an

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abbreviated version of it. We will also use the last part of the call to look at the statement and comments that ALAC will be making with regards to the budget and associated issues. With that, I'll turn it over to Xavier.

XAVIER CALVEZ: Thank you, Alan. Can everyone hear me?

ALAN GREENBERG: Yes, we can.

XAVIER CALVEZ: Thank you. Thank you everyone for the opportunity to provide this presentation. Tijani and I had talked after the Sunday afternoon workshop on the budget that occurred that you referred to, Alan, that no one from ALAC was available to participate to. So I offered that we have a meeting specifically for ALAC to compensate for it, which he was very happy to be able to have, so this is why we're having this meeting. Thank you very much for the opportunity to speak with everyone.

I think this is really the first time we have a meeting with the Finance and Budget Sub Committee working group. I think that as Tijani and I have discussed in the past, we will try to make sure we have more frequent, substantive, and systematic interaction with this group relative to the budget and so as to increase the mutual knowledge and develop further interaction.

With that, you can see that the presentation that we're offering to go through today is dated March 10th, 2016, and is the Marrakech

presentation that was provided during the public session that occurred, from memory, on Wednesday morning or Thursday morning, 8:30 AM in Marrakech local time for an hour and a half, and that was the public presentation there.

I'm not suggesting that we take an hour and a half to go through it, but I will try to go through it relatively quickly so that we can then have interactions on questions that any participants may have. And we can also take a little bit of time at the end just to ensure that everyone is clear on where the information is, to comment on the budget and operating plan update, so that we can ensure that the participants are clear as to the information that is available.

Can I have the next slide, please? Taryn will go over the first point of the planning process and the calendar, present the process that basically leads to developing the budget, and I will go over the next items. Can we have the next slide? Taryn, it's for you to go through that now, please. Thank you.

TARYN PRESLEY: Thank you, Xavier. Can everyone hear me well?

YESIM NAZLAR: Yes, we can hear perfectly.

XAVIER CALVEZ: Yes, we can.

TARYN PRESLEY:	Okay, thank you. Hello everyone, this is the overview of our five-year planning cycle. It's a reminder to all. I think you have seen this slide before, but it's good to have a reminder. We start with our vision and mission statement for ICANN that informs our five-year strategic plan. The five-year strategic plan covers fiscal years FY16 through '20. That five-year strategic plan has informed our five year operating plan, which again covers Fiscal Year '16 through '20.
	On an annual basis, we update the five-year operating plan based on our progress towards achieving goals to find an operating plan and we produce an annual operating plan and budget. That process goes from September through June on an annual basis. Right now, we are in the public comment phase. Once the public comments have come in, we will submit the report on public comments, make adjustments to the operating plan and budget based on community input, and then submit the final draft to the board for adoption in June.
	Throughout the year, after the annual operating plan and budget has been adopted throughout the year, we monitor the achievements in progress through analysis of actual versus budget, and do future forecasting so that we can inform management of the community of our progress and where we think we would land at the end of the year. A lot of our reporting is in support of our commitment to accountability and transparency, so we do a lot of reporting that gets published on our website, on the financials section of the website, as well as through our community quarterly stakeholder calls that happen on a quarterly basis.

In our monitoring of the achievement towards progress, we also inform management of the community on any risks or opportunities related to the operating plan and budget. That's our general cycle for ICANN.

Next slide please. This is a reminder of our management system. This is basically how ICANN's work is structured. Again, we start with community input coming through the five-year strategic plan and operating plan. That input is given to staff, and staff translates that into our work structure. It's structured with objectives, goals, portfolios, and projects. We have five objectives, which are our core foundational strategy.

I hear some beeping there.

UNIDENTIFIED MALE: Seems to be gone now.

TARYN PRESLEY: Okay, I'll continue. We have 16 goals, which are our desired deliverables to meet organization-wide objectives. We have 63 portfolios that represent the cross-functional work undertaken in support of our goals, to fulfill our core deliverables and services. And then we have over 340 projects which are either temporary endeavors that have a beginning and end, or ongoing work that supports the portfolios, goals, and objectives. The objectives and goals are managed by the ICANN CEO in his direct report. The projects and portfolios are managed by ICANN management and staff.

Next slide, please. This is our process and calendar for Fiscal Year '17. We began in July with a planning phase, and that was an internal planning phase where we designed the calendar, we submitted a draft calendar to members of the community to get their input and buy-in on the plan. Then we moved to our development phase, which again is informed by community input, the adopted strategic operating plan, as well as the five-year operating plan.

That section or phase lasted from September through February, and we had two community consultations during that time to get input from the community on what should be included in the operating plan, as well as review our key assumptions to get an understanding if they were meeting the community's expectations. Then, we published the draft five year operating plan and the FY17 operating plan and budget documents on March 5th. We had community consultations at Marrakech, which is this presentation that you're seeing now, to go over the draft documents, to allow the community members to get an understanding of both the process as well as the content surrounding the FY17 operating plan and budget.

I mentioned earlier that now we're currently in the public comment period, which will run from beginning March 5th through April 30th, and that's 56 days. Just noting that that's the longest public comment period that we've had on the operating plan and budget document. And that has allowed more time for the community to review the documents and have consultations with staff to go over the content. During this time, we're actually going to be having calls with community members that submit comments so that staff has a good understanding of what the

comments are meaning and so that we can provide adequate responses to each.

You'll be getting an e-mail with the [doodle] poll asking when would be a good time to conduct those calls, and it's important to note that both staff and members of the board finance committee will be included on those calls. Then we'll publish the public comments report on the 30th. Then we'll go to our finalized stage, which is where we take the comments into consideration and identify whether or not we need to change the operating plan and budget document based on the comments. And then we submit the final draft to the board prior to ICANN 56, with the adoption date of June 30th, and that's the Thursday of the public meeting.

Next slide, please. Just wanted to give you a little bit more detail about what goes into the development phase. What it's comprised of is that we actually forecast the completion of the FY16 operating plan. We are currently in FY16, so we want to update the progress on our achievement towards year one of the five-year operating plan, which is FY16. That then informs the actual update of the five-year operating plan document, and again, that's based on progress towards our goal. It could include updates on KPIs, dependencies, phasing, our list of portfolios, our financial model, etc.

Step three would be to use the updated five-year operating plan to draft the FY17 operating plan and budget. Again, at all phases of the development phase and all phases of the development of the document in general, we always have community input guiding those different steps and phases.

Next slide, please, and I will hand it back over to Xavier, unless you would like to stop for questions now. Are we taking questions now, or at the end?

XAVIER CALVEZ: Alan, I believe there's a preference at this stage that we stop for questions on the process, the timeline and what occurs when, or if we do that a bit later. We can do either way, whichever is the preference. I haven't had any questions being offered, so we can continue as well.

Okay, so we'll continue through the presentation of the plan. Next slide, please. As Taryn indicated, the first step of the process for FY17 has been to take our five-year operating plan that spans from FY16 to FY20 and update it to reflect the achievements of year one, year one being FY16, the current fiscal year that we are under, and therefore allow ourselves to plan to update what we see in year two, which is FY17, as well as year three, four and five, from '18 to '20, would look like based on the achievements of year one.

The overall five-year plan has been updated through the review of each element of the objectives, goals, and portfolios. We wanted to emphasize that we have been focusing on the update of the five-year operating plan, and through that exercise we haven't seen any reason to change the five-year strategy plan, which obviously informs the five-year operating plan, simply because the objectives of the organization in the long term do not change based on the recent activities of the organization. The transition for example is actually an element that

participates to achieving the overall long term goals of the organization rather than changing them.

There's not been any change required from the strategy plan. Obviously, we would welcome comments that would either confirm or suggest that changes should be made as part of the public comment process. When looking at the five-year operating plan, portfolios have been updated to reflect the work that's been carried out, or to reflect new work possibly that's been identified since the five-year operating plan and its previous version was established.

As many of you know, we have issued last year in August the beta version of our dashboard with KPIs, key performance indicators that help monitor and measure progress toward the accomplishment of our goals. Since that dashboard was produced after the first instance of the five-year plan, there have been refinements that we were able to bring to the five-year plan as a result of using those key performance indicators. That information has now been used and reflected in the update of the five-year plan.

There's also been more information provided on dependencies between projects, portfolios, or goals. Dependencies simply mean that a work, an activity, is dependent upon another either resource or another activity to be completed in order for it to be able to move forward. When that is the case, we try to specify those dependencies.

The staging of the work across the five years has also been adjusted where necessary to reflect either progress or lateness in the

accomplishments of the projects, the multi-year projects that carry through the operating plan.

Next slide, please. This is simply three examples of updates that have been carried out into the most recent draft of the operating plan that's under public comment. As an example, the stakeholder journey is a project that's been introduced that was not spelled out in this fashion in the first version. And that's been created and is now included in the five-year operating plan.

WHOIS has also been refined in the way it's laid out and reflected in terms of work for the organization. It appears in three different goals to reflect the activities that pertain to this overall subject across the organization. You can see the goal numbers that appear here to reflect the most recent structure. Also, the IANA stewardship transition work has been reflected further and expanded in the current version of the five-year operating plan to reflect now the more precise, more substantive, and more extended amount of work relative to that topic versus the version that was produced a year and a half ago. Yes, Alan.

ALAN GREENBERG: Can you please define these various acronyms that I'm not familiar with: OCTO and MSSI?

XAVIER CALVEZ: Sure. OCTO is Office of the CTO. It's simply David Conrad's group. David Conrad is our CTO since last year, and he has a group of security and technology people. That's defined as the Office of the CTO.

MSSI is the updated name of the formerly SI department. SI was Strategic Initiative, and MSSI stands for Multi-Stakeholder Strategic Initiatives. This is simply a requalification of the name of the department. That department is led by Theresa Swinehart and includes projects like the transition that her group supported. It also includes the reviews, the group that carries out the reviews in which Larisa Gurnick, that you may know, or Margie Milam, that you may know as well, carry out the AOC in structural reviews.

ALAN GREENBERG: It was just the acronym that I was trying to understand. Thank you.

XAVIER CALVEZ: Right, and I just want to specify that the SI to MSSI, the change of names, is not a reflection of a change of scope or activity, simply a clarification of what that scope and activity [inaudible].

Next slide. We went over the five-year operating plan update. Let's now look at the budget update. As we indicated earlier, the annual budget is resulting from looking obviously at the five-year operating plan and taking the year within that operating plan that relates to the year that we're budgeting for.

In this case, it's year two of the operating plan, FY17, and we use that information in the five-year operating plan to develop at our next level of detail the annual operating plan for FY17. This document that is available for public comment – it's the second document available for public comment in addition to the five-year operating plan. That

document includes and is structured, as follows. It starts with the ICANN operations which exclude the new gTLD program. It provides views on the IANA stewardship transition and implementation. There's a bit of a focus on that this year due to the importance of that aspect. It then provides an overview of the new gTLD program, and then it aggregates together the ICANN operations and the new gTLD program to form the entirety of ICANN.

We also have the breakdown of the budget by objectives, goals, portfolios, and projects. You'll remember that in the previous slides we've seen there are a bit over 340 projects. And the entire budget expenses is broken out between each of those 340 projects, also breaking out for each project the expenses between personnel costs, travel and meetings, professional services, admin cost as well as capital, and also indicating at the portfolio level the number of full time equivalents – this is basically headcount, but it's the fraction of each person's time, as indicated in the budget, that is spent on each of the projects or portfolios.

We have also – and this group is well aware of this – the additional budget request process. That's also part of the information provided.

Can we go to the next slide, please? Apologies for some of the information there that's not necessarily appearing very well, but this is simply trying to provide an overview of how the budget is structured. You see in blue on the left side of this diagram the ICANN operations that contain revenues, that contain baseline expenses, contain multi-year projects, and those ICANN operations are supported by the operating fund, which is basically the day-to-day cash in which the

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revenues and the collected revenues come in, from which the expenses are paid out of, and the reserve fund that has so far funded multi-year projects, as well as serving as the reserve for rainy days.

On the right side in orange, you can see that the new gTLD program is separated from the ICANN operations and has its own expenses and revenues, as well as its own funds that support exclusively the new gTLD program. The addition of the two creates total ICANN. Any questions so far on any of this?

ALAN GREENBERG: Darth Vader appears to have a question, but he's not being clear about it. Just a bit of humor. We have questions from Sebastian and Olivier. Sebastian?

SEBASTIAN BACHOLLET: Thank you, Alan. [inaudible] just on the previous slide, why do we keep talking about WHOIS? If I remember well, when the board gets reports on the affirmation of commitment WHOIS, we decide to change that for another naming. And it seems now that everything falling under all those directory services, it's now going back to WHOIS. I am surprised that we keep talking about only that, and not about directory services.

ALAN GREENBERG: And Olivier. Let's get all the questions first.

OLIVIER CREPIN-LEBLOND: Sure. Thanks, Alan. I was just going to mention one thing, the multi-year projects part here, and I was going to ask how all that fits with what we've seen before, because originally with the five-year plan, there was no provision for multi-year projects. So I wondered whether that was an actual amendment for this year. Thank you.

XAVIER CALVEZ: Thank you. I'll respond on Sebastian's point, then answer your question. But I don't actually know the answer to the reason why directory services versus WHOIS is the language that should be used. I think we'll make the comment to Akram's group of GDD as well as the efforts of the CTO to see how this is being used. Jamie Hedlund is coordinating the efforts on that topic, and we'll ask him to clarify the point of the language. I do remember what Sebastian is referring to.

The directory services, I think at the end of the year and a half working group that had produced recommendations on the topic. The name was suggested to be changed and I still see WHOIS being used. So I see the point that Sebastian is making. I don't have a precise answer, but we will follow up and provide an answer. If you don't mind and if it can practically be done, I wouldn't mind that this question is actually provided as part of the public comment, because I can imagine that others – either in this group or in other groups – would have the same question, and then we can answer the question as part of the public comments so that everyone benefits from it.

Alan, do you want to jump in before I go to Olivier's question?

ALAN GREENBERG: No, that was in preparation for your answer to the next question.

XAVIER CALVEZ: Okay, thank you. Relative to multi-year projects, we had called in the past these large activities that are unexpected or very significant, basically outside of what I would call the day-to-day operations of the organization, we had called these activities initiatives, if you remember, over the past couple of years. When looking at the activities that we felt belonged to that category, we realized that those large projects are more often than not spanning over several years and create a funding challenge when we look at funding, of course, on an annual basis, because our revenue is projected on an annual basis.

We believe that introducing a different scope or definition of these large or significant projects that span over several years and defining an approach that will also help fund those projects would be helpful to the organization. I know I'm not suggesting here anything that's new to any of you. [inaudible] Sebastian, part of his role in the board, and normally, the [inaudible] the board as well as previous discussions that I had with Olivier and Tijani suggest that there's value in looking at a multi-year view of certain activities so that we, one, plan for them, we create predictability and visibility for them, and two, then we can find ways to fund them. There are a number of activities that fall under that framework, basically. Let me stop there and let Alan react, if that's an opportune moment, Alan.

ALAN GREENBERG: Thank you. I guess I just wanted to express confusion. ICANN has for years said we don't do multi-year budgeting. ICANN has also for years planned future meetings in future fiscal years, and I suspect even made financial commitments to them, despite the fact that in theory we don't do financial planning. Clearly, we planned the October meeting prior to July, so we always have had a component of future planning and multi-year budgeting, regardless of whether we did officially or not.

As you know, we're working on a white paper regarding multi-year scheduling for our GAs summits. And yesterday I was told in a meeting that ICANN is pushing back severely on doing multi-year budgeting for IANA, something that the transition plan made very clear it was important to have solid funding in place for IANA. And we were told ICANN doesn't do multi-year budgeting. So this is an area that I really don't need an answer from you, because it's not purely your domain, but it's something that we really have to get our grips on and start giving a single story on. Thank you.

XAVIER CALVEZ: I do want to answer, Alan, and it's not my domain from an ownership standpoint, because I don't own anything in ICANN, but it's certainly a planning topic. I think there's a little bit of vocabulary confusion, and confusion is the word that you used, and I think this is the right word to describe what's going on here. There's no multi-year budgeting. Multi-year budgeting does not exist simply from the perspective that at ICANN, what we call the budget is the annual budget that's approved by the board the next year. The board only approves one year of budget at

a time. It's not set in stone, it could change, but that's currently the way it is. There is one budget for one year.

Having said that, it's just a matter of vocabulary. We have, as an organization, three years – let me rephrase. Forever, we've had a five-year strategy plan, which had – you remember that laminated, two sides printed document? That was our strategy plan for a long time. That was not really spelling out resources by year or funding by year. We had since then – over the past nearly three years now – we've developed as an organization, one, a five-year strategic plan that's more substantive with more substantive community input, and then we have developed an actual operating plan that lays out what the organization is trying to achieve year by year, or over five years. This is the grounds for planning in a multi-year fashion. This is multi-year planning. There is no multi-year budgeting, but there is multi-year planning. And honestly, I think at the end of the day it's just vocabulary difference.

ICANN doesn't do multi-year budgeting is true from a purely governance standpoint because we have only annual budgets that are approved one by one, but ICANN does multi-year planning. We can't allow ourselves to include in the five-year plan multi-year [inaudible]. That's what the five year operating plan includes. That's what it is. I think we have to – to your point – keep working on clarifying what we plan for, when we plan for it, and how we plan for it, because there's no other limitations than the existing governance and how we make it evolve.

This is for us to do, so we can plan in a multi-year fashion, and we always have. It's just that we've not necessarily [spelt out] projects on a multi-year basis, and we don't also commit resources on a multi-year

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basis. The big difference between a five-year operating plan and an annual budget is that we commit resources in the budget, and we don't necessarily commit them in the multi-year plan. The multi-year plan is simply a projection for it. It is an estimate. It's a forecast. The budget becomes a commitment because it has board approval of committed resources.

So having said that, I think that we are simply trying with this vocabulary in this year to introduce the notion of multi-year planning, which we'll need to find ways to establish multi-year funding, because part of the challenge is what goes from just an idea to a commitment is how the activities will be funded. Today, we don't have a mechanism to commit funding on a multi-year basis. We just don't. It's not existing in ICANN today. It doesn't mean that it cannot exist. It's for us as a community, as an organization, to develop it. This is the opportunity for us as a group to develop the concept of multi-year planning, multi-year funding of projects as well.

I'm hoping I clarified a bit, and I recognize it's not straightforward, and everyone understands differently the same words sometimes. But I was hoping to clarify at least the notion of multi-year budgeting versus multi-year planning. There's only an annual budget, but we plan on a multi-year basis. And at the end of the day, we can develop planning and funding over multi-years so that we can have more predictability, more visibility of those activities that carry out on a multi-year basis. Sorry I was long. I think we will need to continue speaking, explaining and working on developing this model. And I have plans with [inaudible] to talk more and try to develop more structure and framework around

the funding of multi-year projects. Let me stop there, Tijani has a comment.

ALAN GREENBERG: Olivier had his hand up first. Olivier, did you deliberately lower it?

OLIVIER CREPIN-LEBLOND: I did, yes.

ALAN GREENBERG: Okay, Tijani, go ahead.

TIJANI BEN-JEMAA: Okay, thank you very much, Alan. I think that it is an improvement that now we have the multi-year projects. They are not multi-year budget; it is multi-year projects. If this kind of item appears in the budget, I think it is an improvement, because before, there was no possibility to imagine anything multi-year, even if it is planning for multi-year. Thank you.

XAVIER CALVEZ: Thank you, Tijani. And as I indicated, I want to be very clear, and I know it's not simple. We are listing – and we will see the list later on these slides – we're listing multi-year projects. These are called multi-year projects, and what we will show is simply the fraction of those projects that pertains to FY17. But we know that those projects either have started in '16 and continue in '17, or start in '17 and may continue for a long time, which is why we're calling them multi-year projects.

This is the beginning, not the end, of organizing the planning of multi-year projects. When we talk about multi-year projects, we should do ultimately the same thing that we will see for the new gTLD program, where we see for a project – this program in this case – the multi-year review of that project, both in terms of expenses, resources, and funding. That will be multi-year project planning.

Right now, it's just the first step. We're identifying the scope. And again, comments on this draft operating plan and budget will be very welcome as to how we look at multi-year projects. I know this group has in the past provided views on the topic, in this question [illustrated]. Let me stop there. Alan.

ALAN GREENBERG: Yes, thank you. I guess I'll take it as encouragement that we're using the terminology here. My take has been for a while now that sometimes we use the fact that we don't have the governance process to formally do budgets for multi-years as an excuse not considering things, as opposed to what you're saying now of, "We can change the rules." I find that encouraging. We have always made commitments over multi-years. I hope ICANN doesn't lease its buildings year by year.

XAVIER CALVEZ: You're right.

ALAN GREENBERG: There are commitments, and I think we have to stop hiding behind our current rules, and I'm delighted to see it in the formal plan. Thank you.

XAVIER CALVEZ:	I agree, Alan, that what you're reflecting is the outcome of conversations that you had in the past with staff. And I can tell you I completely understand why you received that answer. It's because when we are not planning beyond the following coming year, any staff member is at odds to be able to make commitments on things happening beyond that plan. Now that we have the operating plan, it's a bit easier to look at that operating plan that has five years in it, to be able to say maybe what cannot happen maybe next year can happen the following year.

That's the beginning, and, yes, I'm glad that you're taking this as an encouragement, as an opening, because that's what it is. It's a first step on how do we look at our planning. We're evolving over the past two years in our abilities at managing our organization on a longer term basis, and this is an addition to it. We're going to have to think about it. We're going to need to define it. This is not simple. How do we commit spend for three years from now? How do we do that? How do we track it? How do we make sure that there are funds available? Who can know that there will be an ICANN in three years from now or that ICANN revenues will be sufficient to fund a project? How do we manage the distance between the present and a longer term future?

This is the governance that we don't have today, that will need to be established in order to manage multi-year projects. But it's in our hands. It's in our hands to do. It just doesn't exist today. Today we live on a year-by-year basis.

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ALAN GREENBERG: Thank you. I think we better move on or we're going to run out of time, and I know you still have a fair amount of presentation left.

XAVIER CALVEZ: I was going to offer the same thing, thank you. Next slide, please. We were going to use this graph. I already spoke I guess of the box in the left, ICANN operations.

Next slide, please. Box on the right, the new gTLD program, and the two together makes ICANN.

Let's go to the next slide. A quick overview of what's contained in the budget. Revenues. Estimated to be $132 million. So this is the funding of ICANN collected from registrants, as well as registries and registrars, through the registry fees and the registrars' fees. It's aimed to be about 10% above FY16 at 132 million, versus FY16 forecasted to be 121 million.

The expenses. Organically about 6% growth from multi-year projects leading to about a 9% growth. We will see a breakdown of the organic versus multi-year profits growth in the next slides. This multi-year profits total $6 million in FY17 in the draft that is up for public comment. And as a result of the three points above point number four, the FY17 budget basically is balanced overall, resulting from the baseline activities creating an excess that held funding the multi-year profits. We will see that more clearly in the next slides as well.

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The new gTLD program continues. It's not finished even though it's progressed very well over the past couple years. And the [tail] of the program is extended to FY18 and possibly beyond, dependent on the speed at which the last applications and applicants will exit the program or be concluded.

Next slide. Next slide, please. So revenues, I won't stay very long on this. There is information in the draft further than this on the revenues. But basically, the column on the left is the part of their fees that are driven by the number of domain name registrations, by the registrations from registrants. The right part of the graph is representing the part of the fees that are driven by the number of contracted parties, each of them having some kind of fixed fee. So the more contracted parties, the more fees, and the contracted parties are registries or registrars. In the top line you see what comes from the registries. On the bottom line you see what comes from the registrars. And you can see the proportion of our revenues that come from that.

If I take an example, on the top left corner within the 54 million in [current] registries you can see the 25 cents times the number of transactions that come from the registries, whether from .com or from the new tLDs, above the thresholds of 50,000 transactions.

Next. To put things in perspective a bit, you can see the revenue over the three-year period, FY15 to FY17. So we are currently in FY16. The FY16 budget of revenue was at 113 million. You can see here it's at 121 million. We're expecting a higher revenue in '16 than was originally budgeted for. In 2015 the revenue was 102 million. In FY17 we're planning for our middle best estimate of 132 million, as I mentioned

above. We are also trying to estimate a low and a high scenario of revenues, and you can see that the low is at 126, the high is at 137. Not a huge amount of variations between those scenarios. Each of those three scenarios – the best, the high, and the low estimate – are described in the public document, and I'm hoping you'll have an opportunity to comment on those. You have in the breakdown of the revenue you have the assumptions that have gone into providing those estimates. And those assumptions, for example, were discussed during the workshop on Sunday night in Marrakech.

Next. We've tried with this [Parthenon] to provide an understanding of where in which area and function of the organization the money is spent, and there is obviously much more detail in the budget for public comment because we break down information much more in detail. But this is at a high level, providing you with the magnitude of spend across the various activities of ICANN. I won't go in the detail on that. I hope it's relatively self-understanding. We obviously wanted to provide a bit more visibility as to what is in [chaired] services so that we have a better understanding of that. One thing that's… [Erin] can you remind me where the ICANN meetings costs are in this picture, because I now… It's escaping me and I think it's in [Chair] services. But I'm not sure anymore. Can you clarify please?

[ERIN]: I believe it is, but it also may be in Engagement. I would need to check.

XAVIER CALVEZ: Okay. If you can try to check during the rest of this call and provide an answer in the chat, that would be great.

[ERIN]:   Sure.

XAVIER CALVEZ: Thank you. Heidi and Yesim were telling me that my voice sounds a bit choppy. Is it still the case?

YESIM NAZLER: Hi, Xavier. Yes, it's very choppy and electronic. So if you'd like to put a dial out, you can always give me your number from private chat and I can arrange it meanwhile. Thank you.

XAVIER CALVEZ: Okay. Is it better now? Or is it not?

YESIM NAZLER: Could you please keep on talking?

XAVIER CALVEZ: Okay. Let me speak again, and Yesim, let me know in the private chat how that goes.

Next slide please.

YESIM NAZLER: Now it sounds much better. It's much better, yes. Thank you.

XAVIER CALVEZ: Okay. So the next slide is providing an overview of how the expenses vary from FY16 into FY17. And the green blocks shows the variance year-on-year of certain categories of expenses. The green blocks are split into two groups. The group on the left, the three blocks on the left that explain the variance between the FY16 baseline that you see on the left at 108 million and the FY16 new baseline that you see there at 114.6 million. These three blocks provide the variance year-on-year of [inaudible] that result from the impact of multi-year projects, as we mentioned earlier.

As an example, in the multi-year projects there is a set of projects relative to our IT infrastructure strengthening. So what does that mean is we have been working on developing capabilities supported by systems to allow our operations to be more effective and support their development or their growth. An example of that which is mentioned here is Salesforce.com, which is a well-known application that supports the operations of the interaction of with registries and registrars. Now that we have nearly 2,500 registrars and about 1,000 registries now, the interaction with those registries, the management of services, the management of revenues, the interactions with those required much more capable platform than we had before, which was nearly nonexistent. So that's been a big investment from the organization to be able to manage that activity. And Salesforce.com is an element of

that and Salesforce.com is an application, development, and implementation that has been over several years. That's the qualification of multi-year projects. The spend year-on-year on that specific array of IT strengthening had increased from '16 into '17 by 2.7 million, and this is why you can see here the increase in spend that explains the variance year on year.

So on the left the three boxes relate to multi-year projects. On the right, this is what we had called in the overview slide the organic growth. It's basically simply the – largely in the first two boxes the impact of hiring, either in '16 or '17, so there's the full-year impact of having hired people in FY16. When you hire someone halfway through FY16, that personnel cost is half of a year. But when we move into the next year that same employee now costs 12 months of salary because we're planning for that position to be there for 12 months. And by the mechanical effects of comparing one year to the other, the cost was six months in FY16, it's now 12 months in FY17, so there's an increase in costs.

So that's what this first block is. We're also planning to hire 19 employees between FY16 and FY17, and with an impact of 2.6 million. There's also an increase in the [INS to PTI] costs expected from '16 into '17 for approximately 1 million. That's what we call the organic growth. It's basically the growth of costs that's not driven by new projects or expansion of projects, but simply by the day-to-day activities.

Next.

EN

So what are those multi-year projects? You can see their descriptions here. There's five projects and the impact that you see here of 5.9 million in total represents the impact for FY17 only of those multi-year projects. We have… I'll mention this as an example. I won't go over each of them. I'll mention just the reviews. For example, the reviews here – what we are looking at, it's not exactly a multi-year project, even though each review can span – and more often than not does span – over more than one fiscal year. But the reviews, we've looked at it a little bit as a multi-year project from the perspective that there's a cycle of reviews, whether they are AOC or organizational reviews, that spans over several years and that makes the annual view of reviews varying significantly year on year because in one year you can have two reviews going on, but in another year you can have six reviews going on, dependent upon the cycle of those reviews. Some reviews occur every three years. Others occur every five years. And you can see that on any given year there could be a varying amount of reviews.

So we're trying to capture that variation by looking at reviews both in terms of what's the average spend of reviews which is all put in the baseline. The spend on the reviews on an average basis is put in the baseline. And then in multi-year projects we the excess over that average expected in any given year, considering the specific [federal] reviews of that year. So, for example, you can add that 1.7 million of reviews that appears in the multi-year projects to the amount of reviews in the baseline, and the two together represents the amount of funding in FY17 for reviews. And that total amount of funding will appear in the breakdown of the budget by project and portfolios that you can find in the public comment document.

So just on record, the five areas of multi-year projects year to year are [P] reviews, public responsibility, Salesforce, and IPv6. There's the project of IPv6 is support and development to enhancing IPv6. It's, from memory, about over a two-year period. There's more description about it in the public document as well.

Next slide. So we have a problem with this specific slide simply because in the red box there are numbers normally. On the PowerPoint document they appear. On the PDF document they appear. But when we put them in Adobe they don't. So we apologize for that. We have not yet been able to fix this issue. I will describe to you that in the red box right above the acronym PTI, in between those two horizontal lines there should be an amount that says, "5.9 million," and at the very top of the red box, on the left where it currently says, "Numbers," it should say, "Names." So this column corresponds to the names part of the IANA operations, and the total year should say, "5.9 million." That is the slide.

This is simply a summary of the IANA functions costs in ICANN. The total of it is 9 million. The breakdown then of these costs between the lines that you see there that are the direct costs from dedicated resources, this is basically the IANA department led by ALI. There is also the direct cost from other departments, for example Legal or IT, carry out activities that directly pertains to the IANA functions. There is also support services allocated. That's the third line of costs. And there's also PTI-specific costs which appear in the column within the red box which is .6 million, though you can't see it because it's not appearing well.

So in lines we have the types of costs. In columns we break down those costs between names, numbers, and protocol [parameters]. Below that schedule, that little table that totals up 9 million, you have the 13 activities that we have [spelled out] that have been the basis on which we have determined the costs, and the breakdown of those costs between the three operational communities. This information is summarized here. There's a lot more detail in the [project] document for public comment. We provide the breakdown of the costs by each of the 13 activities and by each of the three operational communities.

Let me stop there, see if there's any questions on what these slides contains. But it has what it says. I don't see any question or hands raised…

ALAN GREENBERG: I have my hand up, it's just not showing up. Hopefully the number that's missing is 5.6, not 5.9, or the numbers don't add up.

XAVIER CALVEZ: It should say, "5.6." It may be my mistake.

ALAN GREENBERG: Otherwise it should be 9.3. I understand rounding errors may not make them add up exactly because you only have one [inaudible].

XAVIER CALVEZ: No, I think you're right, Alan.

EN

Is it clear what this is trying to do? I just want to make sure we all understand what this is. As a reminder, there's a specific entire section in the budget document relative to the IANA/PTI functions for public comment.

Next slide please. So now we have gone over the ICANN operations, and these are the numbers aggregated together that show both '16 in the middle, FY17 on the left, compare one with the other. This is the cost that we've talked about a little earlier. I'll simply look at FY17 for a second and I will bring you to the second line from the bottom that says, "Excess/Deficit." And excess is a positive number, deficit is a negative number. The negative is shown in parentheses. So I'm just showing that line so that you… I explain and relate further to the earlier comments where the baseline [new] and expenses from the baseline operations are generates an excess of 5.9 million, which [funds] on the second [line] the multi-year project which cost is also 5.9 million, [leading] the budget to be balanced. And of course it's been constructed to be balanced, as per the principle that we have respected all along, that expenses should be at or below the amount of annual resources.

That principle is obviously a fiduciary responsible principle, but it also is one that creates the challenge that if we have large amount of spend in any given year due to circumstances, we're still constrained by our revenues. And I'm just queueing up the future weeks or months of work that we talked about a little bit earlier that we will need to look at the multi-year projects funding in a fashion that allows us to remove that specific annual budget constraint so that we can engage into multi-year activities and commit funding for on a multi-year basis without impairing the financial balance of our budget so that we don't exceed in

those years where we have committed resources, we don't exceed our spend on an annual basis. So more on that in the next few weeks or months. Any comments at this stage, or questions? I don't see any.

Okay, next.

So this is an example of a project that we manage on a multi-year basis, the new gTLD program. As you may remember, 2012 we collected the fees from all the applicants – 362 million – estimated at the time that it would last approximately five years, from 2012 to 2017. And we're now extending it a bit into FY18 simply because some activities take longer. You can see here… So this is a view of the entire program for the entire duration of it. The column on the left provides the total estimated overview of the program: 362 million of application fees, with total of application processing costs of 219 million in the blue box on the left, an estimated amount of refunds of withdrawn applications for about 53 million, so refunding those fees. The two together is about 272 million, which leaves about 90 million to cover for the remaining expenses, the unpredictable costs of the program which include risks, and the risks include potential lawsuits, for example. That's the type of costs that are expect to be covered with the 90 million that is there. And obviously it's very difficult to predict those costs that are, by definition, by structure, hard to predict, and including completely contingent activities that are not possible to plan for.

On the right you see simply the breakdown by period of that left column, and we spent approximately 203 million between the years 2012-'15 fiscal. We are expecting to spend approximately [12 – 28] million during FY16 and expecting to spend approximately the same

amount in total in FY17, [made out of] refunds in application processing costs as well. Any questions on this slide?

ALAN GREENBERG: Yes, we have several. I'm in the queue and Sebastien. When the new gTLD program was originally put into place, the development costs were advanced from the reserve with the fee being set such that the development costs would be repaid over the period of the first round. The development of the Applicant Guidebook took far longer than we expected, and that increased the cost, although the fee was still set. Of course, we didn't know how many applications we would get at that point. At this point, by the time you are predicting the end of round one and the final costs and refunds and whatever, are you predicting that the reserve will have been repaid fully or is there still going to be something which either we have to forego or roll into round two?

XAVIER CALVEZ: Thank you. Alan is referring to the costs incurred by ICANN in order to develop the program between the years 2007 or so and 2011. Those costs, Alan, were called the "historical development costs" in total because the development lasted longer than was originally planned. These costs aggregated over the nearly six years' period to approximately $32 million. As Alan indicated, this was planned. Not the amount, but the principle was planned, and the fee collected from applicants was including a portion that's aimed at the recovering those $32 million so that ICANN can replenish its reserve after having taken money away from that reserve to fund the development of the

program. So when you look at the left column that says in total 272 million, the blue box within it that says costs 219 includes also the repayment of the reserve to ICANN – or the ICANN reserve fund – of 4 of those 32 million of costs. So it's not spelled out here, but it's part of the cost of the program that is repaying the reserve fund for the 32 million. Is that answering your question?

ALAN GREENBERG: So the bottom line is by the end of the program, by the end of the forecast, the reserve will have been reimbursed.

XAVIER CALVEZ: Correct, fully.

ALAN GREENBERG: That's all I was asking. Thank you. Sebastien.

SEBASTIEN BACHOLLET: Yes, thank you very much, Alan. One of my question is about the, what you call, remaining funds for unexpected expenses. Part of that is for risk, and part of this risk is already happening. Is the expense made by ICANN for the new gTLD program for lawsuits, or including in the current costs or it's to come with this blue line? For example, the cost incurred for the .africa saga.

XAVIER CALVEZ: Okay. So thank you for that question. That's helpful. It's giving me an opportunity to clarify a little bit how we handle that. So I indicated earlier that lawsuits, for example, are unpredictable and therefore we don't know how to plan for them. Therefore, it's with those 90 million of excess that we're going to pay for it. So we don't try to forecast, and therefor there's no forward-looking lawsuits, for example, included the costs of 272 million that appears there. What is included though in there are the actual costs incurred for either lawsuits or lawsuits prevention or litigation or arbitration and so on.

So for those activities and risks that have materialized that we have dealt with in and incurred costs for in the recent past, those are booked. So when you look at the first column in the middle that says FY12 to FY15, this contains, from memory, I think it's about 3-4 millions of actual costs incurred for those either lawsuits or lawsuits prevention. So as we move the line with time, Sebastien, as we move the line that we have a bit more experience and that we every day passes and we do incur costs, then those costs are booked in the blue boxes here. And, of course, they increase the total of cost and they reduce the remaining fund that appears in light blue. So we only book the actual costs that have been incurred. There's no forward-looking prediction of expenses relative to those lawsuits in the costs booked. And therefore the future possible expenses are in the light blue remaining funds. The actual costs incurred are in the dark blue costs booked there.

ALAN GREENBERG: Thank you, Xavier. We have an extension of 15 minutes from our interpreters, so we will really need to wrap this part of the session up in

about 10 minutes. So I'll ask you to plan your time accordingly. Thank you.

XAVIER CALVEZ: Thank you. We're very close to the end. Next slide.

We have seen the operations of ICANN two slides ago. We have seen the new gTLD program in the previous slides. This slide aggregates the two together. You can see the ICANN operations in total on the left with FY17 draft, FY16 forecast indicated, and the variance between the two years, the year-on-year in grey. In the middle you have the same information for the new gTLD program '17 and '16 and the variance between the two years. And then on the right you have to aggregation of the two, ICANN ops, new gTLD program together, creating the total of ICANN, and for FY17 and FY16 as well. I won't necessarily go over the detailed amounts that are there. You will have more time during your review of the detailed document. Just want to indicate this information for everyone's benefit.

Next slide. This is an overview of the head count information for total of ICANN, including ops and new gTLD. New gTLD appears in grey, the ops is the rest of the [set] in blue. And this is providing a three-year review from June FY14 to June FY17. That spans over three fiscal years, and from June 2014 until December 2015, this is actual data. From December 2015 to June 2016, this is forecast data. And the June 2016 to June 2017 is the draft budget data that is in the draft for public comment. And you can see the growth of head count from there on. The breakdown of that information by portfolio by the 60 or so portfolio

is provided in the appendix. And if we can take a couple minutes at the end to look at what is the information available, that would be helpful.

Next slide please. Sorry.

So a very important comment relative to the USG Stewardship Transition and Implementation work. So you have seen no costs included in this draft budget relative to the USG Transition, whether in '16 or in '17. So the draft budget FY17 has no costs included for the USG Transition, not that it's not expected to be happening, but at the time we produced this information we didn't have the visibility collectively as a community as to what will occur in '17 relative to notably accountability developments, the WS2 work. Some of the implementations costs are also unclear depending on how the implementation will happen for the proposals currently under review by the US Government.

So there is an exercise ongoing that includes the community leadership of the ICG, CWG, and CCWG, along with staff support, to help develop cost estimates for the remaining of '16 and for FY17 relative to that entire scope of activities so that then the costs can be known obviously on a forecasting basis, as well as the funding determined for [inaudible].

Bless you, whoever that is.

So just wanted to specify that there's no cost information yet included in the FY17 numbers that we've looked at for this project, and this will need to be added as part of the budget once it's known.

Next. Risks and opportunities are here to try to help indicate what are the potential risks that the budget will be different or opportunities that it will be different. A risk is that the revenue can be lower or that the expenses can be higher, and an opportunity is looked at the opposite. So an opportunity would be that the revenue can be higher or that the expenses can be lower so that the organization financial health is not impaired.

In the risks I'll simply mention the third risk from the top that we're mentioning here. We're not able to quantify it of course, but we believe that there is a risk that we have high costs of implementation [and post] transition expenses. And until we have quantification for those that risk is unknown in terms of its impact, but we think it's a possibility simply because we don't have, as an organization, as a community, yet a clear understanding of the impact of the activities that will need to be carried out both from an accountability enhancement standpoint as well as from an implementation standpoint, though we're working on that now. We're developing the activities, the actions, and their cost estimates. This is still ongoing work. It's still new grounds as a community for us to do and therefore there is a risk that we don't know very well what those costs are.

On the opportunities side, for example, we've mentioned the fact that there could be a relatively faster new gTLD registration growth. The assumptions that we have retained in the base estimate or the best estimate of revenue of 132 million are relatively conservative, which is where we should be. We should be on the conservative side. And we believe we are and it is possible that there is more registration growth there. That's an example of an opportunity that we've listed.

I think we're at the end of this presentation mainly. Can we go to the next slide please?

The next steps are that we will finish the development of the estimates of costs for the USG Transition expenses. We are in the public comment period now, and the next step will be during the month of May to organize the response to the public comments that will have been submitted, after which step three, the BFC will be submitted a final budget which may be either as the draft is or amended resulting from public comment. And then the board will approve on the 30th of June – if the dates of the ICANN meeting remains the same, the board will approve on the 30th of June the final budget. On the right of you the dates from last year's process as a reference. And I think that's the end of this presentation. Any… Can you go to the next slide? There's a few appendices that we don't necessarily need to go over. Let me stop there.

ALAN GREENBERG: Thank you very much. We're really running pretty late. Tijani, you have your hand up. Go ahead, but the next section is yours so whatever time you're taking right now is being taken out of your presentation. Go ahead, Tijani.

TIJANI BEN JEMAA: Thank you very much, Alan. It's a small question for Xavier. How will you work the expenses or the costs of the transition? What are the elements you have to do that since it is unexpected, you don't know. Yes, you know what was already spent as expenses for this transition, but you

don't know what is coming for the future. So I don't know how you will do that. This is my question and I hope it will be very short as a response. Thank you.

XAVIER CALVEZ: Thank you, Tijani. I'll try to be short. You're right that, particularly for this type of activity, the transition, the past is not necessarily a good prediction for the future, which is why we've put together with the community leadership under sponsorship from the SO and AC leaders a group that includes the leadership of the CCWG, CWG, groups to develop together cost estimates for the activities to come. And we're trying to lay out what do we think is going to happen? How do we think this is going to happen? And how much as a result do we think this is going to cost? So this is purely a forecasting of the funds, trying to predict what will occur and how it will occur. For implementation there are several tracks that are monitored, that different people work on. We ask for that input from those people and that group is managed by [Trang] and coordinated by [Trang Min]. She's in charge of that group. For the accountability, we work with [Theresa] and of course the co-Chairs of the CCWG to try to lay out the activities, how many meetings, how much calls, how many meetings face-to-face versus on the phone, and so. We're trying to spell that out in order to put together cost estimates. [It will] be as good as what the estimates are and the assumptions are. All that information will become public so that everyone understands what's gone into those estimates. And then we'll look together at how reality will compare to what those estimates are. That's the plan.

ALAN GREENBERG: Thank you, Xavier. All right, I'd like to thank Xavier for the detailed presentation he's given, and I think giving us all a much better idea of how we're going forward. And I'd like to thank Tijani for instigating this and requesting that it be done to begin with. So thank you all, and I now turn it over to Tijani for agenda item number 5.

TIJANI BEN JEMAA: Thank you very much, Alan. So now we have to prepare our statement or our comment on the five-year plan and on the yearly plan on the FY17 plan and budget. So the first step is to send tomorrow an e-mail to the whole members of this subcommittee explaining that this call has happened and the people who didn't attend it can listen to the recording and/or read the transcript and also read the reports, very important. And please give your feedback, your remarks, about the reports not later than 10 April, because we will need after 10 April to draft the first draft of our statement. And, as you know, it is not easy. It is very complicated, very long, so we need time to do so. So I think that by 17 of April the first draft will be issued. And we will wait for remarks from the whole community of At-Large, and then the last draft will be ready by, I think, 20 or 22 of April. Thank you.

ALAN GREENBERG: Thank you, Tijani. Will we have at least something like bullet points from you of the issues that you think need our specific focus? I'm aware that not everyone is going to read all of the documents, and some indication of where you think we should be focusing our concern would certainly

help those people to contribute to the process, even if they're not going to go into the whole thing in depth.

TIJANI BEN JEMAA: Okay, thank you, Alan. By 7 of April, I will send those bullet points. I will wait for some feedback before I send anything, but I will send them by 7 of April. And I think that the [line] for comments for our observations for our remarks should be on 10th of April. Thank you.

ALAN GREENBERG: Okay, thank you. We have a few minutes left where the interpreters can stay on with us, assuming the participants in this meeting can also stay on. Does anyone else want to raise any issues right now or is there any other business? Or are there any other things you want to raise with Xavier? Seeing no hands, hearing no voices… And I'll say that slowly to give people a chance.

Then I thank all of the people for participating in this. I thank Xavier and Tijani, and of course thank our interpreters for not only doing yeoman service on the hour and a half call, but giving us a little bit of an extension. And I'll call this meeting to an end. This meeting is adjourned. Thank you.

TIJANI BEN JEMAA: Thank you very much, Alan and Xavier. Thank you all.

YESIM NAZLAR: The meeting has been adjourned. Thank you very much for your participation. The audio will now be disconnected. Thank you.

[END OF TRANSCRIPTION]