

**ICANN
Transcription
CCWG Auction Proceeds call
Thursday, 10 August 2017 at 14:00 UTC**

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Attendance on wiki agenda page: <https://community.icann.org/x/YmzwAw>

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Woman: Well good morning, good afternoon, and good evening, everyone. Welcome to the CCWG New gTLD Auction Proceeds Call held on the 10th of August 2017. In the interest of time there will be no roll call. Attendance will be taken by the Adobe Connect room.

If you're only the on audio bridge, could you please let yourself be known now? Okay. Thank you. Hearing no names, I would like to remind all to please state your name before speaking for transcription purposes and to please keep your phones and microphones on mute when not speaking to avoid background noise. And with this, I will turn it back over to our co-chair, Erika Mann.

Erika Mann: Thank you so much and hello to everyone. Let us get started. The second item on our agenda is the update on conflict of interest. Anybody who wants to make a point here? No? Okay. Feel free whenever it is needed, you know, you can do this online at any time. Just feel free to do an update.

The next item, .3 on our agenda, is an overview from (Xavier) (unintelligible) when investment management. We discussed this topic many topic many times and I'm very grateful to (Xavier) with us again, who typically always joins us. (Xavier), are you already there? I didn't see your name.

Woman: I'm not showing that he's joined.

Erika Mann: No, exactly. I can't see it. Can somebody maybe check with (Xavier)?

Woman: I will, thank you. I can send him a quick notice as well but maybe it goes much quicker if you do it.

Marika Konings: Erika, this is Marika. We'll try to get hold of (Xavier).

Erika Mann: Good. Thank you. Shall we wait or shall we put .4 on first? What is your feeling? Did we give him the time? I thought we'd given the time that we would love to have him at the beginning.

Marika Konings: This is Marika. Yes, (Xavier) should normally be aware of the meeting, as he's also receiving the meeting invite. And he did send us the slides. So he definitely was aware of the call. He may just have been slightly delayed, because it's very early morning for him in L.A. As item three is - item four is to a certain extent linked to some of the information that (Xavier) may be providing under three, I don't know if it makes sense.

Maybe we can just one minute to see if shows up and otherwise maybe just first go to time five, although I recognize that's probably a large or extensive discussion that we may have under that item. So at some point, we may need to pause when (Xavier) shows up.

Erika Mann: Yes, we can do this. So let's wait for - maybe for a minute or for two and then let's come back and take a decision about five or four, but I feel like we

should then take five. In the meantime, does anybody have another topic, any other topic they would love to raise today which we can discuss right now?

(Becky): Erika, this is (Becky). I just wanted to let you know I'm on the phone. I'm not in the Adobe room but I am on the phone.

Erika Mann: Thank you, (Becky). And I saw that (Asha) is on Adobe but she is not able to speak. So the two of you are a nice couple today. So one can watch and the other one can talk. I don't know you'll coordinate internally but I'm sure you'll find a solution. Thanks for both of you. Anybody else who wants to raise a topic? No? Then, okay, let's just wait a little bit.

I see (Xavier) is with us. (Xavier), good morning. You have a very early morning. Thank you so much for joining us. Can you hear us already? Is the Adobe connection working for you?

(Xavier): I think it is. Can you hear me correctly, Erika?

Erika Mann: Yes wonderful. Thank you so much. The - you are ready. If you want to go ahead, please give a sign that we can see the slide.

(Xavier): Okay thank you. Can I have the slides up, please? Thank you. Before we start, I simply wanted to make sure that we - the presentation that I have here of a few slides is of course aiming at providing some information but also allowing the group to think through the question of investments and also ask any questions that you may have that I wouldn't be able to help with, or that I would be able to follow up on if I do not have the information handy.

And I would also like to (unintelligible) - the subject to be able to reposition how the investment of the funds affects or not the work of the working group at this stage. So let me start and I suggest that I'll go through the three slides that we have which are therefore very limited in number and then we go to questions.

Next slide, please. Let's see, I have the hand so I can do it myself. So I'll have a few preliminary remarks on an introduction section, various points there to cover. I will give you a quick overview of how the auction proceeds are currently being managed but this is simply as an introduction to how could they be managed in the future, depending upon what the objectives assigned for those funds are.

And what I have done, I'll explain earlier, this is not an in-depth design and analysis and strategy of investments. I have used existing investments that ICANN has to illustrate potential options before we can look at much more substantive and detailed options down the road as the implementation of the recommendation of this group will be performed in the next weeks or months.

I will go on to the next slide. So first, and apologies if some of these slides are moving on their own or I'm doing it. So can you zoom out a little bit?

Erika Mann: (Xavier), this is Erika. Can you wait a second? I see that some people are not seeing the slides below, and it's apparently Kavouss. I just want to check. Are you on the phone only or why - is it (unintelligible) problem? Okay. Julie already sent the link so it should be easy now. Let us know if you continue not to be able to see it. Please continue, (Xavier). Sorry for this.

(Xavier): No problem. So first point that I want to make sure is understood by everyone, ICANN only applies conservative investment policies. This is for no other reason than simply ensuring that as a steward of public funds, we maintain the funds that are being held by the organization for various purposes with a priority on being able to return those funds in the sense of ensuring that there's no loss of that capital. Maximizing the returns is not the primary objective of ICANN.

The primary objective of ICANN is to ensure that there's no loss of funds. And that's basically what we call the return of the capital as opposed to the return

on capital, which is the interest produced. And therefore ICANN will seek to produce a reasonable interest return of the investments but not to the expense that it takes the risk or extreme risks of losing, potentially losing capital.

So that's the overarching principle. It is reflected in the two investment policies that ICANN currently uses for the fund that it manages, and it will be applied to any funds. It of course covers - this principle covers the auction process and will continue to do so irrespective of the objectives that will be assigned to those funds.

The second point that I think is very important for everyone to understand, the - how the funds are invested is always the result and the consequence of what the objective for the funds are. It's not the other way around. You don't decide what you're going to do with the funds, how you're going to use them on the basis of how to invest it.

It's the other way around. You design what - you decide what you want to do with the funds and then the investment strategy will support that. And it's one of the implementation aspects of having then decided to use the funds in a certain fashion.

In the firms that manage professionally funds, that invest professionally funds, will simply ask you what do you want to do with the funds, what is the purpose of those funds, and depending upon the answer to that question, will then define and tailor an investment strategy that supports those objectives.

But no firm will be able to say, "Well I'll do what I want with the funds then. I'll assume what I want with the funds that you're giving me to invest." They will always ask, "What do you want to do with the funds?" and will ask then the perimeters that I'm laying out in the next paragraph, what is the desired level of risks that you want to take and what is the time horizon for the availability of the funds. What does that mean? The simple question from an investment

manager would be how much money do you have available for investment for how long?

So if for example, if you are saying to a firm I have 10 million that I want to invest very conservatively and they will ask you are you going to use some of those funds, are you going to withdraw some of those funds and with what type of horizon?

But if you tell, for example, that investment manager that with your 10 million you're going to withdraw a million per month over the next 10 months and then you'll be done with that investment in 10 months, they'll say, "Fine, we're going to find an investment strategy that supports that with an increasing amount of money invested over time and all the investments liquidated by the end of the next 10 months."

So the strategy will be designed to support how the funds - how long the funds are available and what is the desired level of risk that the owner of the funds is willing to take maximize their returns. The way we reflect and operate - put into operation these principles is by designing an investment policy that defines many different things but defines notably what are the objective of the funds, what they being used for, and therefore what are the priorities for these investments.

So, as I said for example earlier, the priorities for the - that are set in the investment policy that manages both the new gTLD program funds as well as the auction proceeds funds has the following priorities. First and foremost, preservation of the capital. Second, liquidity. Third, maximizing the returns.

You can see that the return of the investment, the interest produced, maximizing that comes only as a third priority after, one, returning the capital and the preservation of the capital and, second, the liquidity of the funds, which means how fast can you access the funds.

And the investment policy is where those guidelines are set. As another example, the investment policy will contain the list of or the types of investments that are allowed to be invested in for those funds as well as the types of investments that are prevented from being invested in, so that - and that helps define the level of risk.

So an investment policy, for example ours, will say that you can invest in fixed rates type of investments but you cannot invest in speculative type of investments. So that's what the investment policy will do and it helps define the guidelines, but of course first you have to define what the use and objectives of these funds are.

With that, I will go to the next slide and show you more specifics about the auction proceeds. So I think most of you know but as a reminder, the auction proceeds - let me back up a second. We hold at ICANN three different pockets of money, in quotes. There is the reserve fund, which is the funds that ICANN keeps as a reserve for rainy days, for security purposes that are not designed to be used but only kept in reserve for emergencies or large unexpected expenses basically.

So those funds are not expected to be used. They are for the long term without actually any defined term, but they're invested in long-term policies. That's one thing. Then the ICANN holds the unspent portion of the application fees collected from applicants to the new gTLD program and then holds the auction proceeds that have been collected over the past months.

The new gTLD application fee remaining unspent and the auction proceeds are managed by an investment policy that is specific to those funds that is different than the investment policy that manages the reserve fund. And that investment policy states the objectives that I indicated earlier of preservation of capital, liquidity and then returns.

Then under that investment policy, ICANN has created separate funds for holding, one, new gTLD program application fees remaining unspent and, two, in a separate fund, the auction proceeds. So the auction proceeds are fully segregated from any other funds that ICANN holds as well as the new gTLD program funds are also fully segregated.

So here on this slide, and I'll just indicate what this information is, this is actually a slide that was presented to the Board Finance Committee as part of the ongoing reviews of investments that Finance Committee or the board does and I simply extracted the one relative to the auction proceeds.

So top left, a few pieces of information. First, how much money is held in those investments. That's the 232 million that you know has been collected to date. Then there is an information called average credit quality. This is the ratings of the investments in which the funds are invested, and this is one of the things that investment policy specifies is what is the rating, the minimum rating that investments must follow.

And just as a background, not everyone may know that investment instruments, whether it's bond or obligations or shares, receive a rating from credit agencies that say - that defines the - or that specifies or estimates the quality of the investment.

The quality is measured, generally speaking, with how safe and how secure the issuer of the instrument is, is this a very safe company, is it a company that has a lot of funds or a lot of equity and therefore will be very easily able to reimburse the investors for the fund that they had invested in that instrument. So that's the credit quality.

And there are three agencies or three main agencies that provide such type of credit rating, and you can see that there's three sets of letters indicated here, or a combination of letters and numbers, the first AA then there's capital A, lower capital A and it's followed by a 2. And then there's another AA.

Those are those ratings for the three agencies. They're a little bit structured differently but basically A means the highest quality, and there's some variance within that bucket.

So the quality of the investments from a security standpoint that the auction proceeds are invested in is of the highest quality from the perspective of security and capability of the issuers to reimburse the investors. The weighted average maturity, which is the information that appears on the next line on this top left table, indicates the terms of those investments.

So most investment instruments have a term that simply indicates that the funds that you have invested will be returned to you at - within in a certain term. It can be a week, it can be the next day, it can be one month from now, it can be in five years from day.

It's a little bit like a mortgage or loan. You borrow money from a bank and you will commit to reimburse that money in let's say five years from now. But that's the term of the loan and that also is the investment from the bank - from the perspective of a bank, that's the investment. And it will mature in five years.

The average maturity here, as you can see, is less than or very close to about a third of a year on average, about four months on average, which means that the instruments in which the funds are invested mature basically are reimbursed to the investor on average in four months from now. Of course there are instruments that are - have a shorter maturity and other instruments that have a longer maturity.

And as long as the funds keep getting invested, if one of the instruments mature let's say at the end of the month of August, then the funds that we're invested in, that investment, come back into - become again available for investments and are then reinvested into another instrument for another period of time as long as those funds are available.

These funds currently generate a return net of cost of about 1.10%. This is, as I indicated earlier, this is a function of the level of risk that the organization is willing to take as well as the - of course the types of returns that are available on the financial market for the level of safe investments that we are willing to put our money in.

I know that those who work less close to financial investments and financial markets don't necessarily always perceive the level of interest rates that are collected these days and over the past let's say ten years. The rates have been very low. In some locations, as you may know, those of you for example who are closer to Japan may know that some interest rates have been in the recent past negative, meaning that it costs you to invest money rather that it produces interest.

On the right we have a pie chart that simply indicates in - where the funds are being held. You see that we are using three different investment managers, holding all of them between 66 million and 100 million of those funds, making up the entire pool of money.

The reason why we're using three investment managers is so that there is simply, per the expression, we don't put all the eggs in the same basket and we simply distribute the funds across different firms so that if any one firm would fail, we would still be able to have access to the rest of the funds.

This is very - it's a precaution, it's a very safe precaution in the sense that it is very unlikely that any of those firms would fail. They have been selected also because they are at the top rated firms in terms of security and volume of assets that have been collected in our request for proposal, a competitive RFP, a few years ago.

They also have insurance in place and the level of insurance that they have in place for their clients' assets, meaning us in this case, it seems the amount

of money that we have invested at each of those firms. Therefore we feel that these funds are very secure.

On the lower end, you see the distribution of the investments across the categories of rating and you can see from left to right that all of the assets are actually invested in the credit quality that responds to A or above, the US government of assets in which received - at least the majority of the assets is considered the most secured type of investments because it is considered that the US government would not fail to reimburse the bonds that they offer for investment.

The - I will go to the next slide and I will come back to questions on any of this afterwards. So the next slide, what I've tried to do here is provide a little bit of understanding of possible scenarios of investments that can help you understand possible options that would be retained depending upon what the objectives of the funds - of the auction proceeds funds is in terms of their usage.

What I have done is I have used the existing investments types that we have and provided a little bit of information on each of those so that you see the distinction between those funds.

So first, the three scenarios, I call them money market, new gTLD program, and the reserve fund. Money market is a type of instrument that is an investment for the very short term when you have funds available for a little bit of time, a few weeks, maybe a few months, and that you want those funds to be very liquid, very immediately available.

You can invest in one day, you can withdraw them the next day. It's very - it's nearly like a bank account except that you don't have payment means on them but you can order the investment manager to withdraw them at any point of time.

The level of risk of course that we have on these money market funds are - is very low. It's even lower to define that level of risk because we know exactly how much interest this instrument would produce because the - it's a fixed rate for the investments that we have. Now the fixed-rate is for each bucket or for each slice in quotes of the money market instrument being invested in so we have still a range of different instruments that basically the nature of the investments that we are putting this money market fund in are government issued obligations so US government. That's the high bar on this graph that you've seen on the bottom left on the previous slide. That's very safe investment, very liquid but also returning a relatively low amount of interest. You can see that the range of returns that is possible on that type of investments currently is let's say between .3% and .5% so up to about half the percent of return.

By the way those returns have recently increased and then to the level I'm indicating here from lower levels in the past months or years as the interest rates were even lower than they are today. And you I'm sure heard those of you who are in the US and everyone else in the world I'm sure has heard that the interest rates have been raised by federal, the federal bank in the US and in other countries over the past few months. The next scenario which I've called the new gTLD program scenario is one where we – the horizon given to the funds is a bit longer. It could be several months to several years. I've indicated here the administration three years. Those are investments that therefore where the money is there for what?

You have a bit more time in front of you to define investment strategy. It doesn't - the whole time horizon doesn't change the level of risk necessarily. We also have a conservative investment under that scenario. But we can have both fixed rates instruments meaning you invest money and you know what is the amount of return that you're going to get on this money because for example it's an obligation that generates let's say half a point of interest that you know that when you buy the – when you invest the money.

The floating rate instruments are instruments in which the rate – you know what type of rate you're investing in but you don't know what the number, what the percentages before because it's a percentage that varies over time that evolve with the market. So you have a slightly more kind of speculative approach here because you're investing in an instrument which returns may vary over time.

The types of investments that we use there are always those that are very, very highly rated in the A category, sometimes a little bit in B category but very little. We don't go very far down the scale in the B category. There's just a maximum of 15% of the investments that can be invested in the B category of rating.

With a bit longer term of investments there's the longer term investments usually carry a return that's also a bit higher than the shorter term investments. And you can see that the rates of returns that we're putting these days on these investments is about around 1% net. Of course don't assume all instruments up to three years are provide exactly 1%. This is an average. This is also not a scientific average. It's something that I've used determine on the basis of the investments that we currently have. So it's in - if it is indicating to you what type of returns we are currently generating on those investments.

The third scenario is one where you hold the funds – the funds that you have available you don't have a term. You don't have the - a timing in the future where you expect to use them. You just don't know. You may hold them forever. That's what I've called and quotes the perpetuity types of investments. But basically you have a fairly long-term horizon during which you would invest those funds and you would not need to withdraw them and use them.

Here the level of risk that we apply same thing is conservative. It's also a mix of fixed and of floating rates. It's also investments that are highly rated

because whether we keep them for a long time or not we want to make sure that we don't lose the fund. It's never a sure thing but you can invest in higher and safer investments than others.

With a longer term perspective the returns are also of a higher level. And here you see the range of returns on an annual basis that the reserve fund has generated over the past five to six years for example. So we're in the six to seven range. The - I believe the - in the latest quarterly report that I have available I think the return over the past five to six years was in the 6.7% or so. So that's the type of return that long term investments I would say more than three to five years could generate. And that's options that are available for us to consider once we know what the objectives of the funds are.

You have on the left a very short-term very safe type of investments providing relatively low returns. You have on the right a perpetuity type of investments that provides higher returns but it's not in the 20% range either. It's more 5% to 7% at least over the past five years. What the rates of the future are I cannot tell you otherwise.

I would be probably having a crystal ball and being very rich and don't need to work. With that let me stop there and the – and I will go over questions. I will let anyone raise their hand in the Adobe room with questions. I see we have a question.

Erika Mann: Yes let me manage the questions, may be easier for you. And I can scroll down and read what is in the chat room as well in case somebody can't raise their hand. So just please signal in the chat room if you have comment to make but you can raise your hand or you can talk, some can't talk apparently today (Xavier) so it's probably easier for me. The first one is (John). (John) please.

(John): Yes thank you and thank you (Xavier). This is very informative. I'm assuming that these are all – that all of the rated bonds are corporate bonds. I guess

one question is are these all American companies? Yes. Are these all American companies or these are all dominated?

(Xavier): So the funds are all dollar denominated but they're not necessarily always American companies. There's also a few international companies meaning non-US companies in which funds are invested but to a very limited extent from memory. We have a cap in the investment policy that I think is either 15% or 20% of the investments. Currently I think it's a bit less than that in which they're investing. Well of course American doesn't mean more safe or saving non-American. It simply means that the investment firms which are all based in the US has better visibility on the investments.

(Daniel): Erika it's (Daniel). I'm on the phone. Can I raise my hand?

Erika Mann: (Daniel) can you wait a second? We still have a follow-up question on...

(Daniel): Yes.

Erika Mann: ...(unintelligible) and then I have you now. Thank you so much (Daniel).
(Xavier) I think you – (John) you had a follow-up question?

(John): Yes I'm applied with the reserve. I recall that in 2009 the principle of the reserve dropped by about 20% to over aggressive investments. I'm wondering has - how has the reserve investment policy changed since then and what – and, you know, and if the market tanks again what do you think the worst case downside would be?

(Xavier): So I don't have in mind what changes to the investment policies have followed that event. I wasn't there at the time. I know it happened but I don't actually know what was changed in the investment policies from before. I know is that the investment policy of today is states the level of risk and the type of investments that are allowed and disallowed. I think that so they wouldn't – if the market would tank what would be the exposure it's very

difficult for me to answer that question. I don't know what that would mean tanking. I don't know what the events would be, what the instruments would be.

The fact that we have right now I didn't indicate that the information that's available in the investment policy we have 2/3 of the investments sorry, of the reserve fund's investments that are fed in fixed rates instruments and 1/3 in floating-rate instruments. So if I simply used this the 2/3 of the reserve fund are fairly secure from the perspective of the type of returns. Now if you have a collapse of the system and organizations go bankrupt including insurance companies that ensure the banks at which we currently invest the funds there's no limits anymore to what losses anyone can have. When the banks fail then the banks fail and that's the 2008 scenario so no one is safe.

But short of a complete collapse of the system we have the highest secured firms we – are those that we use. Those terms are on top of that insured by large insurance companies. So we believe that the investments is very safe. The capital is very safe on the basis of the weight invested currently. The – and the – there's still some liquidity in the instruments which means that we can withdraw the instruments from the investments and put them into cash on a fairly short term basis.

So I believe the investments that we have are quite conservative are therefore very safe. They're certainly – the type of events that occurred in 2009 cannot happen from the perspective that the types of investments that we have are much more secure and much more predictable if I understand correctly versus what they were in 2009.

(Daniel): Okay, okay thanks.

Erika Mann: Just let's move on and then we can come back if you have another question (John). I have next Alan - no Kavouss and then Alan and (Daniel) who is on

the phone only and it seems that (Usha) wants to say something. No she dropped off again. Okay Kavouss please?

Kavouss Arasteh: Hello do you hear me? Hello?

Erika Mann: Yes we do. We hear you. But you have to talk Kavouss. If you don't talk then we can't hear you.

Kavouss Arasteh: Do you hear me? Do you hear me?

Erika Mann: Yes, now we do.

Kavouss Arasteh: Okay thank you very much. I have one (unintelligible) two small questions. The general comment is that the issue we're discussing is very complex issue and we cannot go to the last mile and going to really too much to the last (point) because the situation has been invaluable so we should leave some sort of latitude in future -- whatever we discuss in future. Now my two question is the following. One of them is that what type in investment? It is obligation, it is money market? It is the option is what I understood that (Xavier) send me saying that he go to the most less risky situation. But in fact there are something among these that could have the category of having is this is the first person.

The second question the (unintelligible) to in which investment is made is it is related to when we want to use the money for the time being. It might be possible that once we finish the discussion we should set a time because it is quite possible that (they say) you don't use the money because we have not had any decision. And the third is that the type of the currency. It is a single currency, it is a multiple currency. And that is a really important because the situation is then usually the people investing they use sometimes but not all the time some sort of the combination of the currencies that are not going to want a new currency because of the high risk of that currency that might

happen. Thank you very much. And one of the questions is already in the chat. Thank you.

(Xavier): Thank you. And Kavouss please help me because I'm not sure I've understood correctly your first question. So let me and answer the question on currency. I think I've already indicated that the funds are invested in dollars simply because that's also how our expenses are incurred. They're mainly in US dollars and therefore we invest in US dollars. It's also easier and less costly than investing in other currencies than the ones that you have the funds available in.

But also the fact that it's in – you guys are getting into details of investments that are none of us are qualified for and nor does it really matter at the end of the day the – you can invest in US companies and you can invest its foreign companies. That doesn't mean that you invest in different currencies. You can invest in foreign companies in US dollars as an example. You can invest in a German company in US dollars and you can invest in an American company in euros that the currency in the nationality of companies in which you're invested are two separate parameters that are not always going to get.

So sorry Kavouss. Can you go back to the second – let me rephrase. The – I think your second point was about an iteration of the investments. As I said earlier any investment firm will do whatever you want with a fund. So if you tell the – to the investment firm I have funds for one year and I can leave those funds being invested for one year and I conservative investments what can you do with it then you will have an answer. If you say I have funds for one month what can you do with it then you'll have a different answer. You – the investment firms are your service provider. They will do what you need when you want.

So it's – please understand that it's not like there's a big truth somewhere that is managed by someone in that you have to abide by. We are the customers. We say what we want to do and then the investment firms will professionally

try to design an investment strategy that supports it. And I'm not sure I answered correctly your second question. And since I need that you help me back with your first question in which I haven't understood can I ask you please Kavouss to reape in your first question please?

Erika Mann: (Xavier), Kavouss might not hear it immediately. (Understand) the and then we (unintelligible) it. Kavouss?

Kavouss Arasteh: Yes my second question was that this is the group who decides on at the first time the time of the investment because we have to tell you when we need the money. That was my statement. (Unintelligible) within three years...

(Xavier): Yes.

Kavouss Arasteh: ...(unintelligible) to use that yes. That is my question. I hope (Xavier) have properly grasped that, understood that. Thank you.

(Xavier): And correct. So that's why for example in the – I'll go back to the next slide. The second scenario here which is the one that I took from looking at the new gTLD program funds we told the investment managers here we go. We have about \$360 million. We think that - and that was in June 2012 if you remember for those who were there.

And we told them we don't know how long it really takes for us to move through this program. We think it's going to take probably between two and four years so this everything the horizon is. And we know that in the first part of this program we're going to spend a lot of money because we're going to process hundreds of operations and we're going to need to evaluate all those applications and it's going to cost us a lot of money. But we couldn't tell them exactly every week, much money we would spend and therefore how much money we would need to withdraw from the investments.

So we've (unintelligible) a process of withdrawing money every quarter and tried to having the most predictable pattern of withdrawals from the investments because that's what the investment manager will look for. They will want to understand how long they have the money available to invest for. That's the main parameter for them. It's how much money, how long do you have it for and how risky or not risky do you want your investments to be? Those are the main parameters for the – thanks. Can you go back to your first question please Kavouss?

Erika Mann: (Xavier) let's come back to that. I want to – I like the - too that we have a discussion but we have to look a little bit forward. Kavouss I pass you for a moment and I come back to you. Next is Alan and then (Daniel). Alan please.

Alan Greenberg: Thank you very much, Alan Greenberg speaking. My questions are very much in the same area as (John) and Kavouss. If you look at the chart that's displayed right now based on my experience the difference between the three columns is what kind of return can you get based on how long you expect the money to be there? The issue for instance in the third column is if you're not expecting to spend all of the money within a year or two years or three years the way investment managers typically get that kind of return is that there is a higher risk that is in any given year you may see a drop.

But if you're planning to keep the money there on an average three to five to seven years then over that period of time there you can expect that level of rate of return. But it may not be that rate of return over any six month period. At least that's based on my experience. So I think we really need to understand what the potential risk is over what period of time because what we can afford to risk in a short-term is very closely linked to how long we expect this money to last. And that's a decision I think this group has to make and has to make moderately soon.

If we are expecting everything to be gone within three years there's a very different policy that we might use then if we expect to probably have this

process last five years to seven years or whatever the time is we decide. So I think we need clarity so we can - and what we expect in terms of how long the money to last so we can make reasonable investment decisions. So that's part number one.

I think it's really important that we be in control and we specify what we expect as opposed to the investment strategies telling us how long our money can last. So I think at one point we have to decide what we want and that will guide the details of the investment policy. Thank you.

(Xavier): So thank you Alan and I'll need a bit of help. What you – your last sentence is exactly what I've been trying to say. We need to tell what we want so that the investment strategy be can be designed accordingly. Everything before I want to clarify. You said that the longer-term the higher risk. That's not true. You can have very conservative long-term investments. The term and the level of risk are two different things. You can have very short-term very safe investments and very short-term very risky investments. So the term, the horizon and the level of risks are two separate parameters that you need to define. If you remember I said the parameters are the amount of money, the horizon and the level of risk. The horizon and the level of risk are not correlated together.

You – so why is there higher returns for the same level of conservatism or the same level of risk for longer-term investments than shorter-term investments is because any organization that issues bonds or shares will be able to use the funds longer if they have longer terms and therefore will be able to do a lot more different things with these funds and therefore will provide a higher rate of interest on those funds.

It's not the level of risk that is higher on long-term investment -- not at all. It's the fact that because you have these funds available for a longer period of time you have more latitude and flexibility with your ability to use those funds and produce a return for those funds. So I want to make that very clear.

Two, I think there's a bit of confusion as to what you guys need to decide. What you need to decide is what you want to do with the funds. Resulting from what you want to do with the funds because then they will be – the next (unintelligible) to estimate how much money will be going out the door how fast or when with it differently. So we have 233 million today. When are we going to spend 10 million, then 15 millions than 100 millions and so on and so on? That's the only parameters that you need to provide to an investment manager.

You are not – I am not going then to go and start taking instruments left and right and speculating every day and looking at the rates every day. We are not going to do that. We are going to invest the funds into - with firms who do that professionally. We're going to give them an investment policy and we're going to tell them this is how we think the – or how much money we think you will have available for how long of time to invest. That's all we're going to do.

And you guys only need to say how much money do you think will be spent when? And therefore we can then say to the investment managers how much money we will have available. It will be conservative investments. That's not even a question. It will be conservative investments. So I think that we need to – you need to be very clear as to what you should be able to define and what you should not have to define. Then (unintelligible) becomes implementation and it becomes simply information for the investment managers to use.

Erika Mann: You have next (Daniel). (Daniel) you will not see him on the screen. He is on the phone. (Daniel) please can you hear?

(Daniel): Yes I can hear you can you hear me?

Erika Mann: Yes.

(Daniel): Can you hear me now?

Erika Mann: Just speak up a little bit.

(Daniel): Can you hear me (unintelligible)?

Erika Mann: Yes it's okay right now.

(Daniel): Okay so I have a question. I want to react to what Alan said. I think yes we need as a group to decide on sort of the agenda of the fund. We have two options basically. Either we're going to give the fund to an external agency or were going to decide if ICANN can manage the fund. And if we give it to it's going to be a different kind of giving, you know, agenda for giving the money. So ICANN is doing it then by five, seven years then we can provide an idea of the rate of use of the funds over those five years.

If it keeps going to an external agency may be faster going out. So that's my understanding of what we need to decide at some point so that investment can be done accordingly. I understand that we don't have to choose the fund our self. It's an implementation. We need to give the sort of the idea of how it's going to be used and maybe not for what but for those companies but the rate of use of the funds.

So my original question was on the amounts that are in those three pots that you mentioned -- the reserve, the application fee surplus and the auctions So I know the auction fund is \$230 million. But I don't know how much is the reserve today. And we have to know that because we're being asked to put money from the auction into the reserve. And we need to know how much is in the reserve. And also it's interesting to know how much is in the application (unintelligible) spot because that's also available for some of the project that we might want to fund with the auction fund.

So I think an idea of those three number would be good. They said that they would be going at 1% every year so that's also a non-negligible amount, the \$3 million per year that's accruing. So interesting knowing sort of the amount for those three (unintelligible). But at the same time, what is the operational budget of ICANN yearly to compare to those amounts. If you can summarize that, that would be fine. Thanks.

(Xavier): Thank you, (Daniel). That's very (unintelligible) and just for your information, the information that (Daniel) just asked is available on our website and is updated approximately every three months. For those of you who listen to the quarterly stakeholder call, you have this information displayed there every three months. So what I will do is I will simply mention the amounts that were indicated in that latest quarterly update that you can find again on our website.

So the reserve fund, just so you know the list presentation that was made on that update that I'm referring to, was made on the basis of the Q3 data of FY 2017, which is the 31st of March 2017 and the information that we provided then was provided approximately from memory towards the end of April.

So for those of you who are interested on that presentation of 47 slides, there's Slide 40 where all that information is indicated. So the reserve fund at the end of March 2017 was \$64 million. The new GTLD unspent application fees were \$142 million and there's an expected expenses to come remaining on the program of course of approximately (unintelligible). For those who can be planned for and the auction's proceeds -- sorry -- the new GTLD funds were \$128 million. I was looking at the wrong column. The \$128 million available at the end of March 2017.

So the auction proceeds is the \$233 million that we know. You also asked what the annual budget of ICANN is. The budgeted expenses for FY 2018, which is the fiscal year that we've just entered into on July 1st, and that finishes at the end of June 2018, in 11 months from now, has a total amount

of expenses of \$142 million. And as made the point about the reserve fund and replenishment, the reserve fund of ICANN is designed to be in the investment policy, is designed to be 12 months of operating expenses. So if you use the annual budget of ICANN as the indication of what 12 months of operating expenses is, the reserve fund should be \$142 million. It currently is \$64 million and therefore there's a shortage of nearly \$80 million of it.

Erika Mann: Two follow-up points. It's Erika on the phone now. I put myself in the line. I can't see anybody else right now want to make a comment or ask a question. To the reserve fund, are there legal difficulties? I'm sure you discussed this internally and you had a discussion on the board. Is there any difficulties you foresee in case we would decide to do this to transfer either the complete missing amount or part amount?

Second, maybe you can explain why -- how do you come to this number in the reserve fund, the total amount which is needed. Maybe you could explain this because one could imagine the current amount, which is in the reserve fund, would be maybe sufficient. Thanks so much.

(Xavier): So is there any legal issues with using the auction proceeds for replenishment of the reserve fund, I think that's your question. There's no specific legal restrictions. The source of the funds does not specify, at the time they were collected, does not specify a specific use for them and those funds are owned by ICANN from a legal standpoint. So legally speaking, there is no specific restrictions that I know of that apply to those funds, other than of course, and from a legal standpoint, we have -- you all know the communication associated with the purpose of the funds that have been stated so far. You're closer to all that than I am.

So you all know and I won't go into details but there is no specific legal restrictions that I know of. Regarding why 12 months of operating expenses, it's a longer -- it's a short question but a longer answer. There are -- to make it very short and I can elaborate further, there are -- let me back up. The

nonprofit organizations have sources of funding that usually more often than not are not connected to how they use the funds. So what I mean by that is the funds are sometimes grants from various organizations, maybe from government agencies or from private donors who decide one day that they will give a certain amount of money to a certain organization.

The expenditures of the nonprofit who collects those grants, for example, are rent, or salaries, or recurring type of expenses. When you have a discrepancy between your sources of funds and the usage of those funds, and specifically when the sources of the funds are not durable, predictable, and repeating event, there is a risk that your funds could go down one day or that your income could be reduced.

So all nonprofit organizations try to have a reserve to mitigate the risk of seeing their sources of income be reduced or vary greatly or disappear entirely. Because they would still have expenses, even if they would decide to try to even shut down their operations because their source of funds has disappeared. It takes time do that and it takes money to actually shut down an operation.

So all nonprofit organizations try to have some reserves and not everybody can afford it. It's not always easy to do and there are various levels of reserves that you can have. It's honestly entirely in the control of the organization itself to decide what level of reserve it has. There is a fairly common or frequency observed benchmark used by a number of organizations of one year of operating expenses. That's how years back the reserve of ICANN was set out to be of one year of operating expenses. The organization has actually never yet reached the level of one year of operating expenses so far meaning that that benchmark -- there has not been money put into the reserve fund that reached the level of one year of operating expenses and the budget of ICANN, that one year of operating expenses has increased over the past years as the organization has grown as well.

Other organizations may have different levels. The Board of ICANN has initiated, as Erika knows, a process to reevaluate the need for reserves for the reserve fund or the target level of the reserve fund and the rationale in sum. In that exercise, we have tried to obtain a bit of benchmark and we see some organizations having targets for two years of operating expenses, some organizations having more like between six and 12 months of operating expenses as a benchmark. Some other organizations use a different notion than the amount of operating expenses. Some of them use the types of funds that they receive or the length of the contracts that they receive funds under. I don't want to get into the details but there's a fairly common range of targets for reserve funds in nonprofit organizations and the most common target is 12 months of operating expenses.

Let me stop there.

((Crosstalk))

Alan Greenberg: Alan Greenberg speaking. We seem to have an echo.

Erika Mann: Daniel, if it's you, I heard you and I come back to you after Alan.

Alan Greenberg: I think the issue of the reserve fund is a crucial one from the point of view of if this group as a whole believes it is a good thing, we need to decide how we're going to do that and it's hard in my mind to come up with a project of the kind we've been talking about, which ICANN could apply for, and use the funds to top off the reserve. For instance, there are no results that we can go measure to see whether they did it properly.

If we set up a project where that fits, I think we're going to be construing a very atypical type of project where that is the only possible thing and I find it hard to do. If we're going to do that kind of allocation, I think this group probably wants to cut it out first and not deem using money for the reserve as a project, which will be judged by this agency, whatever it is we put together

to view projects on their merit. Either it's going to fit our model or not and that's why I think we might well need a charter change if we're going to go down that route instead of trying to fabricate or construe some weird project that fits.

So I think that's a discussion we need to have early in our process and get it settled once and for all. Thank you very much.

Erika Mann: I agree with you, Alan. We could do something else as well, which I was wondering during the debate and presentation from (Xavier). We could argue as well that nothing will be allocated yet to the reserve fund but we keep it as a potential option for future purposes and watch how the reserve funds develops. Maybe there is not even a need to use such amount of reserve fund and we see how the future fund, the project allocation evolves. So maybe there is not even a need in the future to put more money into the reserve fund because of different reasons.

So we could just pass the issue and don't decide about it immediately but we would then take a decision that we keep an open mind or we want to do it if there is a need in the future for it. But this just came to my mind. I think you're absolutely right. We will have to talk about it. Is there any point on this topic, (Xavier), that you would want to make a comment on?

(Xavier): On the allocation of (unintelligible).

Erika Mann: The points Alan and I have now discussed and about some debate in the chatroom I saw.

(Xavier): I don't have any specific points to add. I just wanted to point out that I think Pablo Rodriguez asked a question in the chat earlier that I have not yet...

Erika Mann: Then I have not seen it. Apologies. Do you want to answer it? Do you have it in front of you?

(Xavier): Yes, so the question from Pablo is to me, please identify the average credit quality of each investment illustrated in the pie chart. I will go back to the slide, which is the preceding month to the one. So here the pie chart does not indicate the type of investment. It shows how much money is held by which investment firm. So these are not the instruments in which the money is invested. It's the banks that hold the funds and then invest the funds on our behalf at our request.

There are three banks, Northern Trust, U.S. Bank, and Deutsche Bank, and they hold the amount of money that is there. So these banks have credit ratings that are in the A category as well. There's also credit ratings for banks as you know, but then the instruments have the credit ratings that are indicated on the bottom left chart that is on that same slide. So just wanted to (unintelligible) that. Hopefully I'm answering Pablo's question.

Erika Mann: I got it. I have (Daniel) and (Stephanie). (Daniel)? Was it you on the phone?

(Daniel): Yes, so I want to come back to the reserve of 12 months because you explained very logically as a nonprofit and with the independence between the source and the expenses, we have to have 12 months. But I'd like to understand and to have an idea of how much of the operational ICANN budget is coming from the application, the new GTLD application. Because this part first looks like it's generating a benefit. There is a spot for unused application fee and also it's directly related to the cost of evaluating the application fee.

So if we don't sell application, if ICANN doesn't open for application then there is no cost to evaluate then. It's very direct. So I think the reserve should be based on the operational budget minus the application cost because they are already directly covered by the surplus in a sense. There is extra cost. So that's my first remark regarding the evaluation of the reserve.

And the other part is that if you remove the application fee revenue than ICANN revenue is based on the share of every domain name that is rented to user. And that comes from the industry. It's not the nonprofit business. Verisign is probably for profit sort of like rules for managing its revenue and ICANN is part of that because they receive a piece of what Verisign is selling, Verisign off any other registry I mean.

So that's also a question on exactly how not for profit is the ICANN business. Consider the application fee that has a direct (unintelligible) cost and the domain name share, which is very industrial in a sense.

(Xavier): Erika, can I answer?

Erika Mann: Answer but keep it short.

(Xavier): Thank you.

Erika Mann: I want to take (Stephanie) who is still on the call and we have not so much time left.

(Xavier): Thank you. So the reserve fund in the one year of operating expenses target for those reserve funds, I indicated it currently is \$142 million. That budget of expenses is also the budget for funding for revenue for ICANN because ICANN has a balanced budget and it excludes income from the new GTLD program application fees. So I think (Daniel's) point was that the new GTLD program application fee should be segregated from the bucket where we look at the reserve fund and I just wanted to confirm to (Daniel) that it is. So it is segregated and the reserve fund is not trying to cover for the new GTLD program and the new GTLD program funds are segregated from the ICANN ongoing operations for which that reserve is being set up. So the new GTLD excess that you were referring to, (Daniel), is not covering the need for reserves of the operations. It's kept separate just like the auction proceeds are kept separate.

So we're not using the new GTLD application fees remaining unspent for now to cover for daily operations cost of ICANN and have prevented ourselves from doing that as per, of course, community guidance in designing the new GTLD program in the applicant guidebook.

Erika Mann: I think it's clear or you want to follow-up?

(Xavier): No, that's it. Thank you.

Erika Mann: (Stephanie) and Marika. And then we have to come to an end. (Stephanie) please.

(Stephanie): Thanks. I apologize for raising this whole question of a reserve fund way back when (Xavier) started speaking because I did want his views on it. It does seem to me that it's not good from an ICANN accountability perspective to dip into the auction proceeds. However, we would arrange that to top off the reserve fund, although I do agree that two years is what we need in the reserve fund, there may be other ways to do it other than hitting the auction proceeds.

So that was my original question, what does (Xavier) think about that from an accountability perspective. It strikes me that's kind of sloppy financial management if we decide to reach into a bucket of (unintelligible) funds to top off the reserve. Thanks.

(Xavier): So what do I think about -- I guess I'm trying to understand better your question, (Stephanie). What do I think about using the auction proceeds to replenish the fund. I don't know if it's a philosophical question or an ethical question or something (unintelligible). But from a purely...

(Stephanie): If I can clarify, I guess there is a moral question there but from an accountability standards point of view, it is also -- if one did that in

government, and one did -- one gets called out on it as that being not proper accounting practice to move the funds around like that. Thanks.

(Xavier): Okay, I think understand better. So it's entirely appropriate to move funds around as long as it's done legally, transparently, and under adequate governance from the perspective of board decisions. Maybe I'm not understanding, but yes, moving funds around is entirely appropriate if it's legal, and if it's justified and if it's adequately approved by the people who have authority.

Erika Mann: We will have to come back to this question probably again and again because I assume there will be more question around this moral and ethical question. Let's -- I want to take Marika. Alan, I assume you have a question related to this topic but let Marika. Marika please.

Marika Konings: Thanks, Erika. The only thing I wanted to point out that the charter does include a question that notes to what extent and if so how could ICANN the organization or a constituent part thereof be the beneficiary of some of the auction funds. I noted that Alan was referring to a possible charter change but that seems to be a question that may potentially address the specific question we're talking about now, nothing that that's something we'll probably have to come back to at a later stage.

Erika Mann: I think so we have to come back to this question. Alan, please, and (Stephanie), I assume this is an old hand, which is still up. So Alan.

Alan Greenberg: Just to quickly address Marika, I agree that we could construe that as allowing a contribution to the reserve but as I said, I think that would require us to fabricate a very peculiar set of project requirements to allow that and the concept of the potentially external agency evaluating this request, I find that very artificial and we may want to do it in a cleaner way than that. Thank you.

Erika Mann: I agree with you. Okay, we took the time today and we will not have enough time or no time at all to debate Point 4 and 5 so we have to do it next time. (Xavier) let me thank you so much for today. Knowing you, I'm pretty sure you feel confident that we come back to you with follow-up questions, in particular which relate to some of the questions which are in the chatroom. We will have to monitor the chatroom and read it carefully again just to be sure that we captured everything. And in case there are questions still open, we will come back to you.

The same is true for the last point, which on the reserve fund. I assume we will come back to you on this one as well. You are right, funds can be moved around. Typically, there are no legal or accounting difficulties but there might be some perception, or as I said before, maybe you want to have a discussion on that as well that maybe the higher amount, which you in a moment calculate was maybe not needed in the future. But this is something we will have to get discussed not today.

So 4 and 5, we will debate next time. Marika, is there any other point which we have to discuss for next time?

Marika Konings: No, maybe we can just encourage everyone to review (Xavier)'s presentation and slides and share any questions with the mailing list. And some good discussion has already started on item five. So I would like to encourage everyone to keep that going because that may allow us to work between the meetings on a potential redraft or at least addressing some of the comments and concerns that have been expressed.

And similarly on Item 4, we can take as an action item for staff to recirculate the results of the survey to the list in view of already starting the conversation on the list on what may be the next steps. And that specifically relates to some of the questions we debated today as well what is the timeframe and overall timeframe for disbursement of funds, and that again is closely linked

to the presentation we had today. So hopefully that will inform some of the discussion the group may want to have on the list.

Erika Mann: Thank you, Marika. The next call is on Thursday, 21st of August and at 16:00 UTC. So 16:00 UTC is correct. It's not like today, 14:00 UTC but 16:00 UTC. (Xavier), thank you so much again. Thank you to everybody. Have a great day and we conclude the session today. Thanks so much to everyone.

Marika Konings: Just a note, I think that actually should read 14:00 UTC because we always rotate or have the calls on the same time. So please look out for the (unintelligible).

Erika Mann: Wonderful. Good. Thank you so much for correcting it. So 14:00 UTC and not 16:00 UTC. Thanks so much to everybody. Bye-bye and we conclude the session today.

Julie Bisland: Coleen, you can please stop the recording and everyone have a great day.

END