
BARCELONA – FY20 Budget Working Group
Thursday, October 25, 2018 – 10:30 to 13:30 CEST
ICANN63 | Barcelona, Spain

BECKY NASH:

Hello everyone, this is Becky Nash from ICANN Org Finance. I just want to let you know that we're now going to start the presentation, we understand that we have audio and we've just gotten confirmation that everyone can hear us, so thank you very much for joining us.

This session today is our Budget Working Group and from the scheduling that we had done, we have this presentation in two parts and there is a lunch coming in, so we hope that everybody can bear with us through the whole period of time and we're in fact bringing lunch in. Just to give a quick overview of the presenters today, as team from ICANN, we have many participants in the planning process.

Today during this session our CFO from ICANN, Xavier Calvez, will be here. My name is Becky Nash and I'm going to be presenting several slides. We have our team member Nathalie Vergnolle from our MSSSI, who will be presenting on our Five Year Strategic Planning. We have our colleague Mukesh Chulani who will be presenting in the second half of this agenda, he's from our Registrar Services and he will be presenting on the Funding Assumptions and Trends. Then we have Shani Quidwai, our ICANN Finance Team Member, who will be presenting on the Planning Process with me also today.

Note: The following is the output resulting from transcribing an audio file into a word/text document. Although the transcription is largely accurate, in some cases may be incomplete or inaccurate due to inaudible passages and grammatical corrections. It is posted as an aid to the original audio file, but should not be treated as an authoritative record.

In reviewing the agenda, first of all we just want to highlight that this is what we call a Budget Working Group, what that means is that this is an interactive session where we want to hear input from all participants on the planning process. We are covering several elements as noted here on the agenda. We'll be doing some highlights of the FY18 Financial Results. We'll then be covering the ICANN FY20 Operating Plan and Budget and Five Operating Plan Update Process.

We then have a section on the PTI and IANA Operating Plan and Budget and Highlights on that. We have a section on the Strategic Planning Process. We have some slides on several finance topics, including the Reserve Funding Replenishment and Multi Year Budgeting. We have sections earmarked for Q&A. Then we have a short break and working lunch. Lunch will come in and then we can get back to work to them cover the Planning Assumptions for Funding, so that's going to be at the later half starting just around probably 12:15 ish.

For this first slide, this is an overview of our FY18 ICANN Organizational Reporting Structure and this is how we report the financials as part of our financial statements and as part of our planning process for the Operating Plan and Budget. I'd like to highlight for ICANN total, which is listed on the right-hand side on the green bar, we have this made up of two different segments, primarily, which is on the left-hand side is our ICANN Operations, which includes the funding from the contracted parties and other sources of funding, like the ccTLD Voluntary Contributions.

We've highlighted in red a box related to PTI and IANA, which is the funding that ICANN has to the IANA Functions. We have expenses, which we call our ICANN Operations Expenses and we report including the PTI and IANA expenses. In those funding and expenses boxes are on top of what we call our Operating Fund. Our Operating Fund is our cash fund for daily operations as it relates to all of the ongoing expenses.

Still in the blue section here, we do to the right have an expense box which is called the IANA Stewardship Transition Expenses, this will be the last time we display this box as part of FY18. Just as a reminder, this relates to the IANA Stewardship Transition Project, which was funded throughout that work by the ICANN Reserve Fund. That's why it is on top of the grey box of the Reserve Fund. Going forward for FY19 and then when we move into the FY20, when we present this slide we will no longer have any expenses or projects listed above the Reserve Fund.

Moving to the right-hand side of this slide where we have the orange boxes, this is what we call the New gTLD Program Segment, where we have the funding and expenses related to the New gTLD Program, which is related to the application fees that we collected upfront and the funding and the expenses to the program are recognized as the work is completed. That segment is on top of the grey funds under Management for the New gTLD Funds, which would be the funds that are remaining from the applications that were collected upfront.

Then, on the lower right-hand side the Auction Proceeds box represents the funds under management from the Auction Proceeds and this then is what we call Total ICANN or ICANN Consolidated Results.

Moving into the highlights for the FY18 Year End. For FY18, which covers the 12 months from July 1st, 2017 through June 30th, 2018, ICANN operations generated an operational excess of \$2 million. Our actual funding for ICANN operations was \$134 million and cash expenses totaled \$132 million, thus resulting in an excess or a net excess of two million. ICANN Operations

Funding was one million lower than the same 12 months for last year or our FY17 and our funding for ICANN operations was \$9 million lower than the FY18 Adopted Budget. This is mainly due to slower than anticipated growth of the new TLD registrations. We would just like to highlight that during FY18, as we were preparing the FY19 Operating Plan and Budget, we did provide a lot visibility into the fact that Adopted Budget for FY18 was much higher than what we were then seeing for the FY18 actuals and we have several slides on this, including expenses and then some funding assumptions as well.

Moving on into our results for expenses for FY18. Again, ICANN Operations was successful in managing the FY18 expenses and they did come in \$2 million lower than FY17 and a total of \$14 million lower than the FY18 adopted budget. Given the stabilization of funding growth, which did result in a shortfall from the FY18 Adopted Budget, ICANN Org took action during FY18 in order to reduce costs so that our

expenses would not exceed the funding. Expenses were lower than the budget across all cost categories.

Slide number eight is a PLN or a Statement of Activities view, this is again for the 12 months of FY18, where we have our funding and expense are below target budget. On the left-hand side we have our categories of funding, ICANN Operations Expenses, we do have a section for the IANA Stewardship Transition and then we have the net excess listed there at two million. This is compared to the FY18 Adopted Budget in the orange boxes and then compared to the same period or the same amount of time last year in the FY17.

In summary, funding for ICANN Operations of \$134 million, as compared to ICANN Operations Expenses of \$131 million, plus one million for the IANA Stewardship Transition Expenses, results in the net excess of \$2 million. This compared to the budgeted amount of \$143 million, again the FY18 Adopted Budget and with expenses at \$143 million, so that we had revenue and expenses that equaled zero, so expense we not anticipated to be higher than the budget.

Then for FY18 Adopted Budget, IANA Stewardship Transition expenses we expected to be three million, that's why then that amount funded by our Reserve Fund from the Adopted Budget, had a deficit of \$3 million. As you can see, funding came in at the variance of \$9 million lower than the Adopted Budget. We have the expenses for operations that came \$12 million lower than the Adopted Budget. The IANA Stewardship Transition was \$2 million under the Adopted Budget and they were still able to accomplish all the work that needed to get

done. This gives a view of our Actual Verses Budget. Against last year you can see that FY18 is trending with revenue almost at the same or funding at the same levels of FY17 and expenses were \$2 million higher, that's the \$131 against the \$128 now in the grey box labeled FY17. Then we can see the prior year 2017, the IANA Stewardship Transition was \$5 million, so FY18 amounts were \$4 million lower than the FY17.

At the bottom of the slide with arrow, we just provide a breakout of the expenses. In the orange box of ICANN Operations, between IANA services, which would be the PTI and the ICANN funded amounts of the IANA services and those amounts came in \$8 million and the budget then was \$10 million, so IANA plus ICANN funded services came in \$2 million lower than the Adopted Budget. As you can see, all other expenses were ICANN Operations, at \$123 million, came in \$10 million lower than the Adopted Budget. We'd just like to highlight that this our cash expenses, excluding non-cash expenses like bad debt or depreciation but it does include capital expenses.

We're now going to move into several slides that breakout components. Do you have a comment or a question? Go ahead please?

SEBASTIEN BACHOLLET: It's really up to you if you want comments on the fly or if you want to wait till the end of your presentation, it's really up to you.

BECKY NASH: Thank you. We're happy to take questions throughout.

SEBASTIEN BACHOLLET: Thank you, very much. I wanted to go back to the first slide and ask one question or two. You say that the grey bar with the expense of the IANA Transition disappeared, does that mean that there will not be a following on the real cost of this transition with what will occur with the work stream two or it will still be followed but as it's not coming from the reserve fund it will not be on the same box?

BECK NASH: For the record, can you say your name?

SEBASTIEN BACHOLLET For the record I can say my name, my name is Sebastien Bachollet, I am a member of the At-large Advisory Committee but I am just speaking on my behalf. Thank you very much.

BECK NASH: Thank you for your comment, Sebastien. So, I think you were referring to slide number eight which has the reporting structure and if I understand your question correctly, up and through 2018, the IANA Stewardship Transition Expenses were approved to be funded by the Reserve Fund. After 2018 and as stated in the FY19 Operating Plan and Budget, any expenses related to implementation and ongoing for work stream two related activities as funded by ICANN Operations, so

those expenses moving forward for 2019 and forward are considered part of the ICANN Operations Expenses.

XAVIER CALVEZ:

Thank you, Becky. Thank you, Sebastien. It was designed that only the expenses relative to the actual projects and the workings groups that worked on the transition overall down to of course WS2 in it's recommendations, would be funded by the Reserve Fund. What then becomes an Implementation process after the recommendations, whether it was of WS1 in the past or the CWG in the past and now WS2 become 'Standard Operation Expenses' of the organization and not funded by the Reserve Fund.

SEBASTIEN BACHOLLET:

But part of my question is, I understand this part but will you be follow what will be at the end when we will finish to implement work stream two, the total cost of the IANA Stewardship Transition?

XAVIER CALVEZ:

Thank you, Sebastien. I think part of the question is what we do we define being the total cost? What we do expect to do is when the recommendations from WS2 are reviewed by the Board, to try to offer to the Board and estimate of also the costs of implementing those specific recommendations, to inform the Board and help the Board be able to make a decision as to which recommendations to approve or not approve and then be able to offer then those estimates.

The other costs that would be incurred are of course the actual costs of implementation and then costs potentially of operations down the road. After implementation, whatever costs need to be incurred for the purpose of carrying out ongoing processes that result from WS2, we would not flag to tag or isolate those costs ‘forever in the future’ that probably would be when it would stop. I don’t know if what you had in mind was the implementation costs of those recommendations or something else?

SEBASTIEN BACHOLLET: It was implementation costs, not the operational cost but it’s implementation. I think it would useful for the organization to know what was the total cost of implementing, studying this and implementing the Stewardship Transition. Thank you.

XAVIER CALVEZ: Thank you. I definitely agree that I would be a useful element. What Becky described earlier is that these IANA Stewardship Transition expenses pertaining to the project of transition, which if you remember all of you or many of you who were there, started in our fiscal year 14, lasted until the end of our fiscal year 18 and that blue box there, amounts to 36 million dollars. Then we will need to add to Sebastien’s point, the costs of implementation of the recommendations. Thank you.

UNKNOWN SPEAKER: I don't know if you recall that I asked when you're planning do the future budget, if there is a carryover because of this implementation process towards FY19 or if you are using, you mentioned 36 million, is that the total cost of that transition and beyond that it will be covered by the Operating Funds? That implies that probably there will be an additional cost within Operating Funds.

XAVIER CALVEZ: You are correct. The costs were proof to be covered by the Reserve Fund were those only pertaining to the projects of the work of designing in 'the transition' and the cost of running the operations after the transitions are considered to completing operating costs. Remember the Reserve Fund is in effect designed to be ideally never used because simply it is there to cover unpredictable, unavoidable type of expenses like a disaster or in this case like a very large project that we could not not carry out at the time that it occurred and at the time we could also not plan the entire work associated with it, it happened outside of a planning cycle.

But, having said that, now that we are moving into what I would call a operational plannable set of activities, then there's no 'emergency', there's no extraordinary character of those expenses and these should be carried out by the operation because ultimately it will be simply daily operations for us. Thank you.

BECKY NASH:

Now, we're going to move into a few slides that just breakdown the funding for FY18 as compared to the FY18 Adopted Budget and to the same period last year. On slide nine, this provides a view of the breakout of the funding by the registry transaction fee and the registrar transaction fees, those are both dependent of the number of registrations and you can see that for FY18 we have registry transaction fees of \$52 million and registrar transactions fees of \$34 million, these amounts are compared to the budget, again which was the Adopted Budget of FY18, where we did expect higher volumes and this is primarily the area in which the shortfall between actual funding and budgeted funding is derived.

The next two areas are what we call the fixed fees which are dependent on the number of contracted parties, so the registry fixed fees, as we can see that those at \$31 million were right on par with the or right equal to the Adopted Budget estimate of \$31 million and just slightly higher than the same time last year. The registrar other fees, including the annual accreditation fee and the variable registrar fee came in at \$15 million as compared to the Adopted Budget of \$14 million.

We do then have another category which we break that out in several of our financial schedules which also includes the ccTLD Voluntary Contributions, along with the RIR Contribution primarily.

Slide number 10 is a break of the FY18 expenses for the 12 months ending June 30th as compared the Adopted Budget in the same time last year. We do have this broken out in our cost categories of

personnel, where we can see the FY18 personnel expense was just slightly lower or around to the same amount of the Adopted Budget of 69 million. We've added the head count as well in the boxes where we have the average head count listed here of 398 as compared to the average budgeted head count of 434.

As part of the actions taken by ICANN Operations, we did have lower head count then what was budgeted throughout FY18. The cost category next to it is the travel and meetings cost, we can \$16 million as compared to \$18 million, so we have \$2 million lower in FY18 as compared to the Adopted Budget and compared to the same period last year and that's primarily just do to the locations of the venues and lower travel costs.

Professional services of \$26 million came in lower than the Adopted Budget by \$2 million and that's just to do the timing of various projects and the vendors spend for professional services.

Administration and other of \$18 million is lower than the Adopted Budget by \$1 million and the Adopted Budget of \$19 million, which was also consistent with prior years, so 2018 came in \$1 million lower.

Then we have the capital expenses of \$2 million, as compared to the FY18 Adopted Budget of \$4 million. Capital expenses just depends on the timing of projects for those types of investments.

UNKNOWN SPEAKER: I had a question about the professional services. What exactly encompass professional services? What comes under that head?

BECKY NASH: Thank you for your question. Professional services is a variety of different types of expenses in order to further the mission of ICANN and also accomplish the various projects, those could be things like our Annual Audited Financial Statements. We have payments made to our external auditors, it's other types of vendors spend that would be or payments to third parties for contracting, which would be consultants and also professional services.

UNKNOWN SPEAKER: Just a specific one on that; when ICANN sponsors conferences and meets across the world, does that come under professional services then?

BECKY NASH: Thank you for your question. There are components of the ICANN meeting costs that would be related to professional services but most of those costs related to the vendor and the travel are in travel and meetings costs, mostly the IT or informational technology logistics is in what we call the administration and other costs.

XAVIER CALVEZ:

In other words, in order to know the costs of an ICANN meeting for example here, you would need to add a large amount of the costs that appear in travel and meeting in the second category. Some of the costs that appear in professional services and some of the costs that appear in administration, just an illustration for an ICANN meeting, what you can see in a professional services category is that we hire for example audio and video professionals, the people you see in the rooms here are more often than not hired on a contract basis just for the ICANN meeting and those costs appear in the professional services category, that's just an illustration.

UNKNOWN SPEAKER:

So, those would be related to the ICANN meetings. I'm specifically talking about conferences that happen around the world that ICANN partners with, for example there was one that happened last month, a huge cyber security feast and ICANN was a partner in that, those costs, is that sponsorship as well? I'm confused as to the nature of that engagement?

XAVIER CALVEZ:

There is a number of contributions that ICANN offers to partner organizations on the basis sometimes of an event, more often on the basis of an event, so when that is the case it is a little bit like the sponsorships that we receive from the sponsors of the meeting that you have seen maybe on various boards in the venue, we offer an amount of money to contribute to the expenses of the meeting but we're not

necessarily the sponsor of the meeting, it could be anywhere from a \$1,000 to \$5,000 for example, simply as a sponsorship contributing to an event.

That type of sponsorship could also simply be for a project that's not a meetings as well but those costs appear in the administration and other and if you want more information you neighbor on your left is particularly well placed to explain.

UNKNOWN SPEAKER: Thank you so much.

BECKY NASH: Thank you for your comment. I just would like to highlight that some of the remote participants are indicating that they cannot hear us clearly. For all speakers, could you please speak up and speak directly into the microphone.

UNKNOWN SPEAKER: We have a question in the chatroom from [inaudible] from South Africa. How are budget cuts determined or channeled to specific expense items in the whole ICANN budget?

XAVIER CALVEZ: Thank you for the question, it's useful and at the same time a complex question. The process of the budget is carried out in a fashion, at least for us at ICANN, which is a fairly common methodology to -- the

process where we determine in advance and expected amount of funding available and Mukesh will later provide insights as to how we project our funding. On the basis of the funding we then compare that funding to what our activities are and costs and determine whether the expected amount of expense going forward is.

On that basis, we will simply allocate the funds on the basis of both historical expenses of the various and organizations as well as expected priorities or new projects that may simply occur. As an illustration, take GDPR in FY18 was a project that was not planned in the budget to the extent that it did occur during the fiscal year. In FY19 we have included in the budget funding for expenses relative to GDPR because we knew about it. What I think you're referring to cuts in the context of the budget planning is simple an allocation of resources from one year to the next, that may simply be different than what it used to be and resulting sometimes in certain areas to be lower than they use to be.

Patrick was pointing out a little bit earlier with a question that was asked about sponsorship, it's a good illustration of the notion of reducing the allocated amount of expenses in a given category of costs and Patrick and the Global Stakeholder Engagement Teams have revisited the number and amounts of sponsorships that we offer and have endeavored to reduce that amount of money. Maybe that is what you had in mind as a type of cut and there's others as well.

Simply is to try to challenge a little bit every type of expense that we have and ensure that we should carry it out to the extent that it was

and if we think we can do with less then we will try to do with less, that's was fiscally responsible organization needs to do. If we find ourselves in necessity outside of the budget process to reduce expenses, then we will then more specifically look at, re-challenge again, maybe with more current and new information and determine whether we think it's necessary to carry out those activities. This is daily management of any organization. Thank you.

BECKY NASH: Please, go ahead.

BASTIAN HOSTLINGS: Thank you, very much. Bastian Hostlings, an ALAC member but speaking here in my personal capacity. Maybe just to confirm also for other new comers here, if I would interested in a further breakdown of these figures, I assume I can find them because my initial response to this overview and that's not based on facts or particular knowledge, the amount budgeted for and spent on professional services seems very high, it's like 20% of the overall figure.

Also, with regard to the personnel costs, what was planned for and what was actually spent is the same amount while the average head count and that's being emphasized time and time again in terms of like trying to control costs, is a lot lower. If I would like further breakdown of those figures, to get more feeling of what's happening there, I assume that's available?

BECKY NASH:

Thank you for your question. In our published documents for the Operating Plan and Budget, we provide several schedules that do breakdown these various components. The other sources that we have, is we do have a quarterly financials that are posted, they are a similar slide to this but we do have other documents that are publicly available that also reveal some of the details as it relates to what was planned for and for actuals.

I would refer to some of the schedules that we have in what's called our Form 990 has extensive footnotes on professional services, but it is an area that we would like to expand more transparency on, so that we will take note additional schedules that maybe helpful.

XAVIER CALVEZ:

To elaborate further on your question and you were taking the illustration of personnel, for the sake of everybody else we may not have the same thought, the point that is made is that the personnel costs between actual costs \$69 million rounded and budget costs of \$69 million, look of course very similar despite the fact that the head count is 34 persons, full time equivalent persons lower, that does not appear to be consistent.

The main driver to that is that of course we had less people, they've not been paid higher than what was budgeted, actually they have been paid lower on average than what was budgeted but what we had not anticipated to the extent that we should have is the costs of what's

called benefits in the US but is called Social Security and Taxes basically, that the call medical basically coverage, which has increased in the US and in other places to larger extent then what we had anticipated.

That's a cost that has offset or nearly offset the benefits of having less employees and therefore less personnel costs, that's the driver for that. Relative to professional services, I heard your comment about the fact that it's high, of course that's a relative notion and an opinion more than a fact but it's a completely reasonable thought. We have to understand that professional services is not a discretionary spend and if I take back the example our resources that we use on a temporary basis, those fall under the professional services category.

We should have resources that we use only when we need them and not have necessarily permanent resources that have a purpose or need to be providing services only on a temporary basis, so it's completely logical to have professional services, then of course the question is to what extent.

Let's be very clear, a large category of professional services is legal fees, if we would be sued less often we would have less legal fees but that's part of our business, there's no question that any decision that we take, there is and I'm over simplifying, there's have the work who's happy and there's have the work who's not, sometimes it's just one person happy and everybody else not. This is part of our business.

There's also a number of expenses that are ongoing there. We pay for data escrow services for registrars to have the deposit of the data of the registrations in a data escrow, that's completely on going, this is also a significant part of those costs. That's the type of expenses that we have. We do have on our to do list, to breakout a bit those costs into a more granular level because your question is not an unusual question and a completely reasonable question of wanting to understand more what's in there and it's our benefit that you're asking it because then we have the opportunity to explain better what's in and to provide more transparency on that. It will remain on our to do list and maybe come up a bit in our to do list. Thank you. Do you want to follow up on that?

BASTIAN HOSTLINGS:

Just very briefly. To avoid any misunderstanding, I did not say, at least I did not try to say that amount was too high or high, I'm emphasized, at least tried to emphasize that I don't know what the figures consist of and that's why I asked where I can I see a further breakdown of them. It was just seeing this not the first time -- relatively we're spending a lot of money, that's a no brainer. Just to confirm, it's an opinion that we're spending too much there or something like that.

XAVIER CALVEZ:

Fair enough, thank you. Just an additional point that Becky was pointing up to the documents, there is in the budget or other places

on that, you can see the breakout of professional costs by the various functions of the organization in our budget document as well. This another way to look at which array of the organization has contribute to that role, if that helps. Thank you.

PHILIP DUBOIS:

I work for the Belgium ccTLD, so I'm a member of the CCSNO but I speak in my own capacity. Besides that, we also manage a gTLD, so I'm also a member of the GNSO. I first want to start with a compliment, so I really am a fan of the budgeting process and I think it's provides a lot of transparency and indeed you can have more detail if you want, it's available. This being said, I'm not always a fan of the content the process produces.

I have a few questions. I wanted to started with a very technical detail, am I right in that not all savings compared to the budget are visible in this slide? Because you arrive at 12 in total and if I add the amounts here presented I only arrive at seven, just technical. The head count, the personnel is the same, then you have two million of savings in the travel, two million the professional services, two million in capital and then I think it's one million in administration and other.

XAVIER CALVEZ:

There's some roundings that contribute a bit to that difference but there's also the IANA Stewardship Transition expenses.

PHILLIP DUBOIS: I thank my neighbor for his question, I'd go further on that. If I understand correctly, the savings in head count that you anticipated were because you saw that the revenues were coming in short compared to budget as well, sort of anticipation to have less head count on board in order to compensate for bit revenue that was coming under budget, is that right?

ZAVIER CALVEZ: Thank you. It is partially right, it's right but it's a more structural approach that we retain in that sound new because we're talking about it more today but has always been applied, which is to simply be able to one challenge the need for more resources and really question and dig deep into the rational for needing resources but certainly we have more extensively looked at new positions requests across the organization as well as replacement of positions and challenged whether or not we need to replace as well.

Of course, it is practically driven by the fact that we had this year less funding than anticipated originally and that's a completely natural reactive approach funding being lower than budgeted, but it's also an ongoing instructional management of resources approach. I'll leave it at that for now. Thank you.

PHILLIP DUBOIS: I was wondering if the revenues would have been higher, would you have hired that 36 FTE's then?

XAVIER CALVEZ:

I should compliment my explanation before that, there is also fairly naturally as everyone knows in any organization, there is what is called in the US attrition or turnover, meaning people naturally leaving the organization to take other jobs which is perfectly usual. So, we do factor to a certain extent in the budget a saving or a lower expense due to the fact that when a person, especially when it is in the US there's very short notice periods in the US, so when I person it's very likely that for a number of weeks the position is going to be vacant even if we do decide to replace that position and therefore we factor in the budget a little bit of lower expense due to that.

With that position being eliminated, the fact that it's vacant for a few weeks means that we have a bit lower expenses. But, it happened a bit more this year than what we anticipated and that also contributes to it. Back to your question of should we have had more funding or funding consistent with the budget would we have hired more people? Probably but I don't necessarily believe we would have reached the number of 424.

The other aspect that we would have taken into that decision of hiring more people is not just the funding of this year but of expectations of funding for long term. We don't hire a person because we have the money this year and then what do we do if don't think we have the money next year. It's a much longer term perspective, which is why we try to have longer term expectations of funds.

As an illustration, the message that we've carried out which you have heard many times, those of you who are close to it, [inaudible], we're expecting a very flat, no growth or marginal growth funding on an ongoing basis, which also means that we really look at our resources to try to contain them as much as possible.

PHILIP DUBOIS:

What you're saying is that you're really anticipated to have 430ish people on board because you needed the head count, you needed the manpower to execute projects or to support the daily operations and since you're 36 head counts short now, where does it impact your daily operations or projects and how does it affect the strategic objectives that you had foreseen for FY18?

XAVIER CALVEZ:

Thank you for that question, which is the very logical next step to if you have less resources how much less work have you done? There are two main drivers that I want to describe. There are always projects or activities that occur differently than what we had planned for and when new resources that are tied to those projects then we may end up by not needing those resources immediately or not as soon as they were originally anticipated simply because those projects are not progressing the same speed that they were expected to.

But, the other aspect is also can we try to do what we are doing with less resources? Which is also a very natural thing to do and we are often offered to think about that and do more of it, which is

completely natural but we do that every day. Taken illustration which is a but selfish, in our department there's a person who transferred into Strategic Initiative Department, she was participating to this budget process, you may have seen her sitting with us and she was also an Executive Assistant to me and when she transferred we simply decided not to replace her but she was replacing a person that had left the organization where she went in the Strategic Initiatives.

That's doing the same thing with less resources, that's simply efficiencies, it's speaks to completely to you and you're use to it but that's what we are trying to do is do the same thing with less, also to the extent that we can and that did contribute to that difference between the budgeted without impacting negatively the organization and its progress. I expect that to be ongoing. There's a number of very specific activities that we may simply do a bit less of.

We were talking with, I use the example of the sponsorships that we pay to a number of organization that we help, offsetting costs for example to meeting, well we do a bit less of that. At the end of the day does it contribute less to the mission? It probably does. Is it significant, acceptable and does it impair the progress of our mission? We believe not, that's also a management decision. What can you not spend money on that will let you not impair your ability in the organization? That's a daily exercise.

PHILIP DUBOIS:

Thank you, Xavier. To compliment you, what you're saying is, you are doing more or less the same with less people, which is basically what a lot of people in the community expect.

XAVIER CALVEZ:

Absolutely and this is the natural thing to do. What I want to put in context a bit, when our head count was growing a lot, it's because we were adding activities and through the transition there was a lot of different things happening at the same time. What we managed to do more now as of our volume of activity is stabilizing and we can rationalize the activities that we carry out, it's then obviously then a bit easier to look at what we've now been doing let's say for two years after the transition and be able to try to optimize bit by bit.

Another illustration, you may have heard Goran speak about it, is that we have a lot of different systems, that takes a lot of effort to manage, to organize and when you have two systems it costs you more than twice having one system because then you have systems speaking to each other or not speaking to each other, it's a big expense for us and that's a very illustrative source of efficiencies for us is to try to reduce the number of systems that we have but yet again, without necessarily trying to cut services but simply try to consolidate the systems but to continue to provide the services where we can, that's another source of efficiency that we expect to continue to be able to find.

Our purpose is always to the extent possible, to maintain the service with a more efficient structure of resources put into them. Certainly, I

think as we should, if we find activities that we can do less of, then we should consider doing less of them, not necessarily to the satisfaction of everyone but that's also a decision to be made.

PHILIP DUBOIS:

I just wanted to give one final feedback on the slide with costs on the head count. If you see the difference in FTE's 10%, so the miscalculation in the budget is quite a bit mistake to say, because on such a large number of \$69 million, that's half of your budget. If you make a mistake of 10% because of those fringent benefits you were explaining that's a lot. However, even how good your process is, that's a point I want to make, if the input is not correct, the output will not be correct either.

XAVIER CALVEZ:

And just to be clear, the projection of benefits, costs, social security costs, since we are producing our budget so much in advance there's about half of the year that is at the time we project nearly two years in advance, so that's one element that prevents us from having a certain amount or better accuracy in our projections relative to benefits.

There's also a bit of a rounding exercise here. The benefits cost from memory, I'll be corrected by Shani and Becky if I'm wrong, the higher benefits cost then budget was \$2 million, which is absolutely not insignificant but just to put a number behind the idea. Thank you.

UNKNOWN SPEAKER: We have another question in the chat from [inaudible] South Africa an NCSGFC Chair, why are budget cuts mostly felt at the community level and less on other components of ICANN? Is there a way the community can play a deeper role to manager personnel expenses?

XAVIER CALVEZ: Thank you for the question. It's a very logical and reasonable question. I like the fact that you used felt because there's a lot of perception in here. If you ask there's difference groups about that question. Every group will look at what service they use the most or like the most and will look at what happen to those.

If you ask for example ICANN Staff members who were not able to use certain services or not able to travel, they will tell you that they feel the pain as well. I think that's a good illustration of the natural situation that we're all in and certainly Becky, Shani and I have a specific vantage point, is that we see the entire organization and we see probably all the areas where there's reductions but Patrick here can speak to you about the fact that in one of the regions where we are, we had two people and now we have one.

I can tell you that that one person that's left feels the pain. It's not just the community, it's everyone in the organization that is affected by this and it is completely logical, let me take an example which maybe the one you have in mind in asking the question. When we reduce the additional budget requests from \$600,000 the prior year to \$300,000 it

is a painful exercise when you just look at that, it's obviously having an impact but remember, that this is the additional budget request.

This is the tip of the iceberg and when you look at the entire support, take travel support for example of the organization, the travel support in FY19 verses FY18, is increasing in total, it does. Now, this is also why we had because our funding is flat, to find other areas across the entire organization, not just direct community support, that allows us to not spend more money then we make.

I know and it's completely natural that everyone looks at specifically the services that they receive and is directly impacting by whether those services increase or decrease and in this case decrease but I want you to understand that it's across the board, when I say across the board I mean it's across the entire organization and it's not specific to community services.

Of course those community members who see the specific benefits of certain services that we provide or funding that we provide, will feel the pain more specifically about those services being reduced but if you remember the budget of FY19 and the discussions that we had there, the organization cut travel costs by approximately 12% for the Staff and the travel costs for community support increased by 12%, so that's an illustration of the fact that pain across the board is distributed and not specific to the community. Thank you.

UNKNOWN SPEAKER: We have another question in the chat from Alfredo Calderon. Under professional services is there a percentage set aside for unexpected expenditures? What happens when a working group requires mediation to resolve issues? Is the covered under professional services?

BECKY NASH: Thank you for your question. For an operating plan and budget we do have a budget category called Contingency, which is in the professional services category, which is as described in our operating plan budget document as an expense category related to unforeseen costs and again, as Xavier had indicated, because the planning process is done so far in advance for the actual fiscal year in which the expenses are incurred, we have always included an amount called contingency. The contingency is used for unforeseen costs that are surfaced by one of the departments, an approval routing goes through the functional executive team leader and through the CFO and the CEO of the organization.

Specifically here, I believe the question is whether or not contingency would be used for a particular type of expense and again, as long as it's something was not in the budget and cannot be offset by other expenses in the budget, then we go through what's called the Contingency Approval Process.

ZAVIER CALVEZ: Just to compliment what Becky just said. We, for purpose of presentation in this type of slides, we aggregate the contingency with the category of professional services so that it's easier to present but the contingency is a budgeted amount of expenses, unallocated to any specific category at the beginning of the year simply don't yet know what that usage could be and sometimes don't use all of those budgeted expenses but they could be covering any type of expense in the organization not just professional services. Relative to mediation services, that a type of service that would yes appear in professional services when we incur it.

BECY NASH: Question please?

UNKNOWN SPEAKER: I understood in the meeting we have between ALAC and finance that incomes are flattening, more or less stabilizing as you want to call them but from the standpoint of community, SO's, AC's, everything, what I hear is cuts, cuts, cuts. If we have the same income, why we are talking about cuts, cuts, cuts, when the amount we are receiving is the same? We're supposed to be spending more or less the same, why cuts, cuts, cuts?

XAVIER CALVEZ: Thank you for that questions, that's a very useful one and very happy to hear it. You may have heard what I said a little bit earlier for

example about travel. Our travel support last year increased, increased from 18 to 19.

Let's look at an illustration of that, it may not be very intuitive but the costs of travel funding for ICANN from FY18 to FY19 has increased by 12%, simply because of the locations where we're going. It's not necessarily more travel seats, meaning more people to travel, it's a little bit but not much but it's also simply the costs of the trips of where we're going to go but our funding has not increased. Should we simply let's say reduce by 10% the number of people funded because the cost of where we're going is more expensive?

By the way that's what most companies do, that's what the Staff has done. We have reduced the number of trips that are taken by the Staff, meaning people travelling less to their job, so that we can maintain the amount of travel funding and the number of travelers that can be supported. We didn't reduce the number of travelers for At-Large from 29 to 25 for example, we didn't do that. So, that's not been cut.

Now, we did adjust some of the support for example, the additional budget request and when I hear people saying, the community being cut its support, this is the only thing they're talking about sometimes but you need to look at in the context of everything. In total, FY18 to FY19, if I look at travel which is a good illustration of an activity and a support that is to a certain extent provided directly to the community, that cost and those activities have increased in the ICANN's budget, not been reduced.

I want to also emphasize something that is common not just across the perception of the community but including in the Staff, when you have expectations that are things are going to increase and they actually don't increase but remain stable, there's a perception of cuts, I hear that in the Staff as well, my budget is cut, no what you wanted is lower then what you're getting but it's actually not lower then what you had. There's also a bit of a perception affect and there's also simply it's not always easy to explain, yes when additional budget requests or the number of fellows for example we have funded which has decreased from prior to this year, from 60 to 45 for example. When you're a fellow, it's the end of the world, it's the one thing you care about is your fellowship funding but you may not see that going to Kobe instead of going to someone costs us a million more.

I think that it's difficult for everyone to be able to have a comprehensive amount of information, it's our duty to try to explain that all the time. We will want to continue trying to communicate and explain what we have to do and how we are doing it. I thank you for your question because this is, to your point, it's a very common perception and sometimes it is a reality but I want you to understand it's not a reality that is imposed specifically on one or two groups or on one or two specific services, it's across the entire organization and you just know what you know. You don't necessarily know everything that happens.

BASTIAN HOSTLINGS: Thank you very much for that, those types of explanations are very insightful. Maybe in terms of process, probably it's even quite a broad question I don't know about that, you'll probably be able to help there but decisions that are made for instance to cut the additional budgets requests, the example that you refer to that for the community travel supports, more money was spent because of the locations that we went to but it had an impact for instance on Staff, that decision was made, who makes those decisions? I'm assuming it's not the finance department that makes -- you're explaining it but if you actually want to debate the decisions behind it then you have to talk to someone else probably.

XAVIER CALVEZ: Thank you. As part of the budget process, to provide some insights into the steps which will hopefully will illustrate a little bit your question, what we do is before people start working on evaluating their future activities and therefore their future costs, we provide what we call an envelope, which is not an amount of expenses, it's we have this much funding, you spent this in the past, this is the envelope that you are give to work with, so that you have an idea of how much resources we have before you manage your X or manage your Y, start planning for your activities.

If you know that your resources are here, you're not going to plan for activities that are there or, you might do that but then you know that allocation of resources will need to increase as a result of it. Then we have decisions between the manager of each function and Goran

Marby as the CEO, Gina Villavicencio, our HR Director and myself, to look at every one of the different areas and then we consolidate all the information and look where we are, knowing that there's also of course new activities that are embedded into the asks that we get from people.

It's a fairly standard management process and management decision process to look at all the areas then that have been submitted, see if there is more or less expenses expressed as a need by the entire organization and then it's going to be a lot of Goran and Gina and I and then with the rest of the executive team, we look at the areas there's not enough resources, the areas where there's maybe opportunities to make a decisions on reducing expenses so that we can then reallocate resources.

It's at that level that it happens and then theirs is after the budget, of course then we are going to have public comment, we'll provide more insights on where to allocated or not allocated expenses and then on a daily basis as the year then goes through, we also make those decisions probably more on a marginal basis, a bit more reactive to something that we planned didn't happen and something that we didn't plan is happening.

But, that's a management decision process and very often -- it sounds of course because from my vantage point we make a management decision but sometimes it's going to be a lawsuit. It's going to be a support that we need to provide that was not planned for when we had the GDPR, there's workshops and meetings and so on, we didn't

plan for that, we made that happen but it's not just a management decision, it's events that then drive us to have to incur those costs or activities. Thank you.

BECKY NASH:

Thank you, everyone. We're just a little conscious for time. We're standing between you and some lunch at this point. We're going to go ahead and finish up this section. I just wanted to highlight that the slides that we're presenting today are being uploaded to the session so that they are available for viewing.

I think we've had a lot of really great discussion and again, we encourage questions but for the moment, what we're going to do is move ahead to the FY Planning Process, which we'll cover very briefly and then we will ask our colleague Nathalie to cover the Strategic Planning Update, then after that we'll take very short break to just grab our lunch and move into the second session which is, Working Lunch, where we have a presentation from Mukesh on the Funding Assumptions which I think will be really interesting. With that, I'm going to pass it over to Shani to cover quickly the FY20 Planning Process.

SHANI QUIDWAI:

Thank you, Becky. In this section I'll go over the documents that produce as part of our FY Fiscal Year Planning Process, the calendar and ways that you can engage and provide your feedback to us. Every year we produce a Strategic Plan and we do this for ICANN as well as

IANA and PTI. We produce a Five Year Operating Plan, Annual Update to Five Year Operating Plan and an Annual Budget.

The documents that we produce are quite lengthy and the specific information that you are looking for may not be as transparent reading through these documents. We have various data points we use to summarize some of the activities and this will hopefully make things more clear. We have five objectives. Objectives are core foundational strategies upon which goals are based. We have 16 goals in budget document. Goals are desired deliverables to meet organizational wide objectives. There's 41 portfolios. Portfolios are work that's undertaken in support of goals to fulfill core deliverables and services. Lastly we have projects, which is our lowest level of detail. There's 221 projects and projects include key projects and activities.

More detail around projects, we think of projects in three different scopes. One is a cross functional project, that's a project that can involve with multiple departments at ICANN. It's a unique deliverable and something like an example of this would be the Information Transparency Initiative or ITI Project. Functional projects are specific to a specific department and work stops with the deliverables.

An example of something here would be if the finance department had one specific functional project to improve a billing system, that would something we could put here. Lastly, recurring activity, this is where a lot of work falls. This is one department and this is general operational work that we expect to see on an ongoing basis.

Some key process updates. For FY20 we are expecting the adoption of the ICANN budget to be one month earlier than the FY19, this will permit the Board approval well in advance of the next fiscal year. The timing of the approval for the SO and AC additional budget request, we have a slide following this with some more details but it's a very similar process to the prior year. We're also designing and looking to implement a multiyear planning process.

Some of the expense assumptions that are going into the budget. ICANN organization activities and projects result directly or indirectly from bylaw requirements and from decisions made by the Board based on community lead policies or recommendations. Another way of saying is that we only plan for projects that have been approved. I think we've talked a lot about the funding growth has relatively flattened and this has lead ICANN to carefully plan and prioritize during the budgeting process and make sure that we're not spending beyond our means.

One example of that and we've talked a lot about is the head count. You can see from FY15 through FY18 our head count had been growing on an average rate of 11% per year, that was inline more with funding growth that we had seen in a lot of the new activities that we were taking on. As of September 30th our average head count is 392, so that's a five head count reduction from our average head count last year.

Here's just an overview of the documents that we will publish. For PTI and IANA there will be an Operating Plan and Budget, those are

already published and the public comment process has started for those. For ICANN, we will be publishing the ICANN Operating Plan and Budget later in December, there will be a Five Year Operating Plan Update as well as some additional information to dig into some of the projects and portfolios.

For the additional budget request, the community kick off and submission period will start early in November and go through January, then at ICANN64 there will be SO and AC consultations. Early in May we will notify the SO and AC's of the publication and then that last box should say the publication on the website would be the 6th of May when we expect the budget to be adopted.

Here's an overview of the ICANN FY20 Planning Timeline. As you can see we've already finished two items or I should say almost finished. I've given us credit for the Budget Working Group, which is in process. We also had and FY20 Planning Kickoff Webinar in early August. The key item that I've boxed here is the public comment period, which begins the 17th of December and will close on the 8th of February, this is a key part of our planning process and an important step that everybody can provide feedback and we're looking for your responses on the documents that we publish.

We have a clarifying questions period that will be open for 26 days, feel free to review the documents and make sure that you understand them properly before submitting your comments.

On March 18th, we will publish the Public Comment Report from the ICANN Staff.

On April 22nd, we will post the draft for Adopted Budget to the website and this is really a step so that the community can see the documents that the Board will be reviewing before the Board has adopted the budget, just a key item that we wanted to call out.

Moving to PTI. We've published the Draft Budget and the Public Comment Period open on September 28th, that will be closing on the 12th of November. There were not clarifying questions but that period has closed. If there are any questions as anybody goes through the documents, you can always feel free to email us at planning@icann.org. and we can still clarify anything.

We're expecting to publish the Public Comment Report of the 26th of November, with and expectation that the PTI Operating Plan and Budget will be adopted on the 13th of December.

Lastly, we just wanted to highlight some ways that you can participate. The first one I think everyone here can check the box, attend a budget working group at ICANN meetings. You can find and participate in an ICANN Community Group. You can subscribe to our email list, which is the third box here. We regularly send updates when we're posting materials to the website or hosting webinars or highlighting events at the ICANN meetings, specific to finance and budgeting. We have several documents on our website that will help.

Lastly, the public comment process I think is a crucial avenue to provide feedback to us. With that, I'm going to move the slides along to the Strategic Planning Area for Nathalie to give us an update. One question.

TIJANI BEN JEMAA:

You are still doing things in this way, you have an Operational Budget for PTI and the IANA Budget, if I understand it well, the Operational Budget is for administration, etcetera and the IANA Budget for the technical part of IANA.

BECKY NASH:

Thank you for your question, Tijani. We have two different, separate processes, one is the PTI Operating Plan and Budget and per the bylaws of PTI that is a separate Operating Plan and Budget which is comprised of all of the direct costs for the IANA functions, such as the IANA Functions Department and in addition to it includes costs that are related to shared amounts that are called the direct shared or the shared services, which is support.

That is published for public comment and it is intended for the original recommendations from the USG Transition that it should be published and provided to ICANN at least nine months in advance of the next fiscal year. In addition to that, there is a separate document or process published by ICANN which is called the IANA Budget, the wording is a little confusing because of the fact that it's IANA Budget Operating Plan and Budget and that process again, published by

ICANN includes the inputs from the PTI, which would be the PTI Operating Plan and Budget, plus some ICANN funded expenses, such as the RZMA Agreement and other ICANN expenses that are required as the ICANN is the IANA functions operator.

The relationship there is that ICANN is responsible as the IANA functions operator but subcontracts the actual work under a series of subcontracting agreements to PTI. As an organization similar to the last two years, we have posted those two documents at the same time for public comment but one is under the authority of PTI entity and it's board and the other is under ICANN's process but we chose to publish them together as one public comment in the hopes that it would be easier for the community to read those different components together. Please, your question.

TIJANI BEN JEMAA:

But Becky, you put them in the same box, the orange one which is PTI.

BECKY NASH:

Thank you for your comment. So, back to the reporting structure slide, what we do for what we call Quarterly Financials, which is not based on the legal entity, it's based on the ICANN and PTI or IANA department operations, we've called it out as two separate boxes because ICANN receives the funding from the contracted parties and then ICANN is the sole member of PTI and provides funding to PTI. PTI does not have any external funding that it bills for, it all basically

comes from the parent or the sole member funding that subcontracting set of arrangements.

That is a point of view that we use more for what we call Management Reporting or Internal Purposes. I'm not sure if that answers your questions but that's why we try to break it out and the Statement of Activities where we give a little more visibility as well.

XAVIER CALVEZ:

Let me add to that. It's not simple exercise by contract of the bylaws. Conceptually the IANA Functions expenses, that dimension, are 95% nearly maybe between 90% and 95% comprised of the PTI expenses. There's very few expense items that are in the IANA Functions that are the subject of the Empowered Community rejection power in the PTI expenses. PTI contains are in PTI are located 90% or 95% of the expenses of the organization.

To be clear, the IANA Functions are carried out by ICANN. The operations of these IANA Functions is subcontracted to PTI. That's the structure but the IANA Functions responsibility continues of course, carried out by ICANN. If you were referring Tijani to the first graph at the top that provides the reporting structure, I think you are actually right, we should change the word PTI in that red box to IANA Functions because it's actually the IANA Functions and within that red box, there's a sub box for PTI. Thank you.

BECKY NASH: Another question, Sebastien?

SEBASTIEN BACHOLLET: Thank you, Becky. It's seems that you are able more and more advance the budget and if I recall well the request for specific budget was to deal with the fact that some of the expense by the community project could have occurred in the first three months of the next year budget.

I am trying to find a way where we can decrease the complexity of this organization and why we don't backup that into the budget, that now you are able to give a decision to have a decision from the Board two months in advance and okay the community can still disagree but in fact, you have already minimal budget who will anyhow be put into services therefore, why we don't include all that in one single working budget? Thank you.

And really I know that there will be consequences for the community who maybe disagree because they can't push for their own project in the same way they do today but if we want to try to find a way to decrease the complexity, we need to start somewhere. Thank you.

XAVIER CALVEZ: Thank you very much, Sebastien, for that thought and point and certainly we do want as well to try to simplify the process. Just venting a bit, of course we've completely increased the complexity of the process by having to disassociate the IANA Function Process from

the rest of the ICANN Planning Process or creating two faces to it but relative to the -- for those of you who don't know the history, what Sebastien was explaining is that we had created a separate process for the additional budget requests in the past, so that they can be approved by the Board sufficiently early for those recipients to be able to plan for their activities being funded, notably if they were happening very early in the fiscal year because we were approving the budget very close to the beginning of that fiscal year.

Now that we are advancing the process, meaning making it happen earlier and the Board approves the budget now practically two months in advance of the beginning of the fiscal year, that actually corresponds more or less to the timing by which we've had these additional budget requests approved by the Board separately in the past.

This year for example -- April or May 18 for example, the additional budgets requests were approved at the same time that the rest of the budget because that budget was approved earlier. As we continue doing that we definitely have in mind exactly the simplification that you're pointing to, which is remerging together the two processes because now the later one that was the problem has advanced to earlier and therefore there's no need anymore to keep them separate.

It would, if you've noticed, we are still -- we've advanced everything, so that also means that if we want to merge the processes we would need the additional budget requests are also submitted sufficiently

early in the process so that they can be integrated with the rest of the budget and submitted for public comment at the same time.

We can talk more about that, I'm not trying to redesign on the fly but this is definitely the type of the things we would like to do and if we also by the way, pushing further that idea, if we manage to advance further the conclusion of the process for ICANN, maybe we can actually match it with PTI. If we could not have different timing and phases of steps because we manage to advance the ICANN process, then we can collapse those two processes that we've distinguished two years ago or three years ago because the timing requests and the bylaws were different but this is a cost to the organization and to you all because you now you have two different processes to look at, at two different times.

Two different public comment processes, so there is a complexity created by that, that we're hoping we could find ways, without of course creating an issue with our bylaws, without creating an issue our ongoing processes to be able to simplify the process. Thank you.

BECKY NASH:

Okay. I suggest that we move to the Strategic Planning section and then as I noted in the chat, we will be sure to answer all questions after the next few sections.

NATHALIE VERGNOLLE: Thank you, Becky. Hi everyone, my name is Nathalie Vergnolle from Multi-Stakeholder Strategy and Strategic Initiative. I realize I'm the only thing standing between and your lunch, so I'm going to try to make it brief and maybe we can take the questions while we are eating lunch if you would like to do that. We can certainly do so. I have a few slides to speak to you about the Strategic Planning Process, where we are in the project and where things are at in terms of progress and where opportunities for community engagement are.

Let's go to the slide about the structure. This is simply to say that we're mostly going to keep the structure of the current strategic plan, so for those of you who are not familiar with the current strategic plan, we are currently operating under a plan for the fiscal years 2016 through 2020 and plan is available on the ICANN Org website if you want to go and take a look at and you'll see that the structure of the current is pretty much I'm presenting here and it's what we are going to reconduct in the next iteration of the strategic plan, which will cover the year 2021 through 2025. It will include a vision, a mission and a strategic objectives and goals. One new element of the strategic planning effort this time around is we're going to look to include financials and that will be through a fully costed five year operating plan.

Moving on the description of the process that is being followed towards the development of the next strategic plan, we've decomposed the work into four phases. The first phase was the trends identification and that part is now completed. We've been running trend sessions within the organization with the Board and within the

community at ICANN61 and ICANN62. I hope many of you got the opportunity to participate in those trend sessions and we got a lot of input from that.

The second phase after that has been to look into prioritization and analyzing the inputs received and this phase is also reaching completion now. It's been a phase that has been mostly tackled by the Board and specifically a strategic planning board caucus group, a subgroup of the Board who's been working on this over the last few months. Some of our Board members held a session on Monday to speak to the findings of that phase, if you haven't had a chance to sit during that session, I encourage you to go ahead and listen to the recording of that session, it's available through the schedule of ICANN63 or I can send you a link to the recording as well if you want.

We're now moving into the third phase which is the drafting itself of the strategic plan. We'll use some of the inputs that we received through the session that we held on Monday as well as inputs that we received in a community webinar that was hosted a little earlier this month. Of course, if you want to voice more inputs, feel free to email us at strategic-planning@ICANN.org that email will be at the end of the slide deck as well.

We are going to draft a strategic plan and the Board will review it and as soon as we have a finalized draft we will put it out for public comment. We're hoping towards the end of November or no later than for the end of this calendar year. I want to commend finance for being able to put out a -- to committing to a date for their public

comment period for the budget. We haven't committed to any date yet but it's coming.

The fourth phase will be the finalization of the strategic plan based on the inputs we receive from the public comment period, we will look to revise the plan, work with the Board on those revision and most likely go through a second public comment period if that's necessary based on the inputs we received.

There's also been requests from the community to have a public session on strategic planning in Kobe to have an opportunity to discuss the plan then. This will of course be the decision of the community whether this session will happen but it's going to be proposed as one of the sessions for ICANN64. With that, we're looking to finalize strategic plan hopefully in the March to May timeframe, so that after that we can go into developing the five year operating plan and budget. All of these plans needing to come into effect at the beginning of FY21.

Briefly, in terms of timeline, I'm sorry this slide is a little difficult to read, so I'll just reiterate and speak more about the community engagement piece here. As you can see here we have two swim lanes, one at the top that indicates that progression of the work for the four phases that I just described and the bottom section is more focused on community engagement and opportunities for community to participate. As you can see, the process makes room and allows for community input throughout each of the phases of the plan, with the next opportunity being the public comment period coming up shortly.

I want to spend the next few minutes to go a little more in the details of how we got to where we are right now at the end of the second phase of the program. As I mentioned before, we held a number of community sessions, we'll we held 25 trend sessions, 10 of those with the community and the collective effort of all this effort currently represents 1,400 collective hours, so a significant amount of hours have been dedicated to strategic planning already.

The process of analyzing the workshop results included categorization of the data elements as well as some statistical analysis based on volume of data collect and number of votes attributed to data elements. When we ran the sessions we asked participants to weigh in on what they thought were the highest priority items. Once that process was completed, we also within the Org conducted some research on publicly available materials, to validate the reality of the inputs collected.

One thing I would like to stress out here is that a lot of the themes that were brought up by the different stakeholder groups or by the Org and Board, were very common, there was a lot of commonality between the topics that were brought up, that in itself is a validation that those trends are valid. The research that was conducted thereafter also confirmed the reality of the trends that were observed.

With this process in mind after the categorization, statistical analysis and research, the Board also conducted a swat analysis, so they looked into what are the strengths, the weakness, opportunities and threats of these different trend elements and identified five key focus

areas that are going to be the structure of the next strategic plan. Those five elements being the security, ICANN's governance, the unique identifier system, GEO political and final choice.

I think this is my last slide. I'll just speak briefly again about next steps and future opportunities for community participation. Just to reiterate that we are currently working on developing the draft strategic plan and there will be a public consultation throughout the months of November and December with exact dates yet to be announced. Then we are going into the revision of the plan and Board adoption in the March to May timeframe.

I think this concludes my presentation. Yes. Becky, you want to...?

BECKY NASH:

Thank you, Nathalie. At this point we are going to recommend that we pause the recording and that we come back, grab sandwiches and lunch that are here and that we start our next section, which a working lunch and we will go through the funding and ICANN Market Projections. Thank you, five minutes please. If you have a question.

UNKNOWN SPEAKER:

Sorry, I was in the CCWG IGA Session, so I couldn't come in on time. It is a good time because I still made the discussion on the focal areas in terms of strategy. It is my perspective because if you ask a question, what is ICANN main and primary key objective? It's to ensure that the unique identifiers are secured and operational, if I'm correct. I think

that should be in terms of strategy, no matter what that should be key because when you talk of security it also have to do with that primary objective.

In my own perspective, I think that should remain the fundamental, no matter what happens. If it is broken, then everything is broken. That's my perspective that we should [inaudible]. The unique identifier should remain number one in everything and yes security is also important, government, your politics but that unique identifier what is the basic thing, the key thing, must remain [inaudible] priority, with funding, with whatever we have. I don't know if that makes sense.

XAVIER CALVEZ:

Thank you for that comment. I think that this views that you're sharing are shared by many others of course and I think that's one of the views that Nathalie was pointing out is very much common across the entire community. I think that it will be the best opportunity for those views to be reflected will be in the public comment on the strategy plan, that will be open, which Nathalie spoke about a little bit earlier.

But, you didn't just say that it was important, you also said it should be a priority, so I think that in addition to that feedback during the public comment, I think that if the community thinks, if the various groups of the communities have any ideas or thoughts about the fact that some of the strategic objectives should be more important than others, this is also something that's very important to provide as part

of the public comment because so far the organization has not and when I say the organization it's the overall community and ICANN has not prioritized its strategic objectives, at least in the format of breaking out the various -- the mission into strategic objectives.

If you look at the current plan, we said there's five objectives and there's not one that's more important than the other. Should we, as part of our new strategic plan being developed, prioritize the strategic objectives? That's definitely something we can and should consider and decide what to do with it. That needs to be obviously a community discussion and in coordination with the Board. Currently, Nathalie unless I'm mistaken, there's not prioritization between the suggested five objectives that exists in the draft plan.

NATHALIE VERGNOLLE:

Thank you, Xavier. Yes, you're right. The current strategic plan and the way that's it's shaping does not prioritize one topic over the other and those are more discussions that will happen within the operating plan when we are costing the operating plan because the priorities was also coming in terms of financing the different initiatives of course. Just to compliment Xavier on your comment, I don't know if you were here at the beginning of my presentation but I indicated that the strategic plan includes the mission and vision.

Our mission is very much focused towards ensuring the stability of unique identifier system. Everything that we do in whatever goal or objectives we lay out in our strategic plan are also with that mission in

mind and so we didn't necessarily repeat in our objective or goals what our mission is because it is our mission and so all of our objectives and goals are working towards that.

BECKY NASH:

Thank you everyone, we now pause for five minutes. We invite you in the room here to grab something to eat and we'll be right back with the funding.

Thank you everyone, we're going to get started in just a few minutes.

Hello everyone, we just asked that you just please get your food if you would like some and come back and sit down please.

Thank you everyone. We're going to go ahead and get started with our next presentation. The recording is back on. At this time I'm going to introduce Mukesh, who's going to start us off, along with Cyrus for the funding section. Thank you.

MUKESH CHULANI:

Thank you, Becky. Hello everyone, Mukesh Chulani from ICANN's Global Domains Division. Nathalie said she was worried she was between you and your lunch and I'm really between you and your lunch. Without further ado we should go through the presentation. Before we get into the core of the presentation where we review numbers for our forecasts, we've noted your interest in past working group sessions to learn more about the organizations approach to

forecasting, therefore wanted to dedicate some time to provide coverage of that.

Also, within this block of time I'll have a chance to explain the nature of those various sources of funding, so you know exactly what that word means. Funding forecasting for us covers several fee categories, the first is the derived from the per domain transaction fees. When we say transaction we mean ads, renews and transfers of domain names. These are paid by the contracted parties, so registries remit 25 cents per transaction. Once they reach a threshold of 50,000 domains for four consecutive quarters, that activates this requirement. The registrars on the other hand pay 18 cents per transaction straight, so there's threshold required.

The second comes from the fixed fees paid by registries and that's a second sublet of the first bullet there. This is an amount of \$25,000 annually and the registrars also have corresponding accreditation fees, that's \$4,000 annually per registrar, so that is essentially take the base of registries, multiple it by \$25,000 you get that number. You take the base of registrars, you multiple by that \$4,000 and you get the registrar accreditation fees.

Then of course you have the registrar application fees, at application, registrar, applicants prior approval, pay onetime fee of \$3,500. There are other components of funding but it's not subject to forecasting. That for instance would be the \$3.4 million variable fee for registrars, so what happens is we take the entire base of registrars and it's a variable fee to the registrar but it's a fixed fee on annual basis of \$3.4

million, it's variable to the registrar because it's divided across that base and paid on a quarterly basis.

There is also the other category, which essentially contributions from the RIR's and the ccTLD. We have meetings sponsorships as part of other and other miscellaneous income.

Funding for each of these fee categories are calculated separately and we consider a wide range of factors when we conduct this projection exercise. First among which would be historical data. We would look at the volume of transactions, including a distinction between green field acquisition, it's an ad verses a renewal. We would look at the growth pattern of launch strings, have a look at their domains and their management and consider that as a trend where applicable.

We look at legacy TLDs separately and we look at new gTLDs separately. When we look at legacies we have a pretty solid historical base and the historical base includes quite predicible, of course now that I said it something will happen but it includes quite predictable seasonal trends. We look at that historically and we have a very good, we have had a very good and we hope to have a very good coverage of legacy TLDs production.

For new gTLDs, we look individually at the larger subset of new gTLDs. At the moment they hit the threshold of 500,000 domains under management. We look at them individually and try to look at their growth on an individual basis so we're not looking at this as monolith. There are currently 12 of those at present and in combination they

account for about half of total transaction from that new TLD space and about two thirds of billable transactions. There's a distinction here between total transactions and billable transactions because of that kicker I told you, they need to hit 50,000 for four consecutive quarters and then that essentially converts a transaction to a billable transaction.

Some additional factors are also considered when we project funding for each category. We have a look at words from investor statements or documents that are available publicly. We have input from industry participants. Some of those are provided directly to us, some of those are provide by investor statements. We have a look -- we do a scan of marketplace developments regularly. We try to look at how these have an impact on supply side and demand side conditions.

Just to give you an example, a new string may be launched, registry operator may expand into a different market. We have news of mergers and acquisitions, we have consolidation, we have price promotions. We look at those type of activities and try to evaluate how they might impact our forecasts.

We then develop scenarios for low, medium and high estimates. Taking a look at all those three, kind of gives us a sensitivity analysis if you think of it in that sense. Where we have our best case, this is what we think will happen but gives some power range in case we were too aggressive or not aggressive enough. We do develop a low, mid and high estimate.

Just one final slide to reiterate something which Xavier has already mentioned today. It's a very critical point that I wanted to make about timing. Under the current budget cycle the funding values are developed really 18 months plus in advance for a 12 month period. Just to give you concrete dates for that, I've put the charts here as well. For the quarter ending September 2017 for instance, that's FY18Q1, that is the last data point we use to forecast all the way to June 2019. I'll say that again. September 2017 is the last data point we have to forecast all the way to June 2019.

Consequently, this is where we are right now, the quarter ending September 2018, is the last data point we have to forecast all the way to June 2020. What I want to underscore by showing this to you is that while we have very predictable trend for legacy gTLDs, for the new gTLD market in particular, we have certain volatilities and complexities which makes it a really, really complex crystal ball exercise and compound that with this wide time horizon. What we do, is we constantly evaluate this on a quarterly basis. We don't do it once and go to sleep, this is constantly updated.

I'll walk you through now the FY18 budget verses actuals and Becky has also presented something similar to this. I don't want to belabor the messages she's already provided. I'll try to see where we can give different perspectives.

This is of course shown in millions of US dollars and as already kind of stated, we're 6% lower than the budget of \$142.8 and that's really primarily due to lower registration volumes we had. I'll show you

exactly where that came from and why that arose. On our left most bar, that's the component I was referring to when I said this is triggered by that threshold of 50,000 transactions for four consecutive quarters. This is the registry transaction fee and we obtain \$52.4 million actual verses \$57.3 budget. It's because lower transactions, we had less threshold of 50,000 and so that's a lower number.

The next one is the registrar transaction fees and that's a straight hit, so you expect 19 cents per transaction. If you have lower transaction, so there's a gap essentially there. The next sources of funding are fixed fees. It's where you take the base and multiple it by a certain dollar amount and you will see we were pretty accurate for those two categories. Then the last one is not really subject to forecasting, it's contributions and there is a slight gap there but not a fundamental gap. The main story here is, those first two categories.

RICARDO HOLMQUIST:

Just to understand the way the budget is done, you mentioned to you have three different scenarios but there is one that is took to the budget, which one is it, is it the middle? The actual figures are lower than the budget on the prior one we see it was \$10 million or something like that, that was your worse scenario or it was worse than your worse scenario? Just to understand the actual trend is not to -- it's just more or less to understand what is the actual trend in the industry.

XAVIER CALVEZ:

Thank you, Ricardo, it's a good question. We'll need to go back to looking at the FY18 budget documents but from memory the -- just so that everyone understands, as Mukesh said we have develop scenarios for the funding with expectation to take the middle one, which is our best guess and we have a low scenario which is worse case, not worse case but an expectation of things that would go lower then high scenario.

From memory the four new gTLDs, the actual FY18 came lower than the low scenario of the budget and because we took an approach of expecting 40 million or so of domain name registrations under new gTLDs and our low scenario must have been at 32, I'm making it up a bit because it's far back but we are 22. It's significantly lower than the low scenario, that's definitely something that we didn't predict, nobody did actually because just as a reminder, you may not have known, but we had received external feedback that the growth would be more towards 50 to 60 million domain names in new gTLDs then the 40 that we took.

We felt that we were already relatively cautious but certainly not cautious enough. I think everybody in the market expected the growth of the new gTLDs to continue significantly and it slowed down. Just further insight on that question which simply speaks to the low predictability that Mukesh was talking about earlier.

PHILIP DUBOIS:

You answered partly my question already, do you ask individual feedback to all new gTLDs because I suppose it's mainly the new gTLDs that are causing the fall back on the anticipated budget in the transactions. Basically, what you could do is ask all the new gTLDs that are at 25,000, 30,000 domain names and that have an opportunity to go over the 50,000 and start generating extra revenues with the variable transactions, ask them individual feedback.

What are your projections or your plans without handing them the details that they can project their own numbers and that will provide additional input for your own calculations and your own estimations perhaps. Perhaps you are doing it already, if you say that the anticipation of the market was more 50 to 52 million instead of 22, this being said, I only follow the GEO gTLDs because we manage two GEO TLDs ourselves, obviously they over the last two and half years are a decline with almost all of them. The only exception I know is .Toyoko which is increasing quite healthy but the all the rest is going down.

XAVIER CALVEZ:

Thank you for the feedback. We do conduct a market scan, it may not be as deliberate or organized as hitting each one at a single time. It is certainly compounded by the fact that this is 18 plus months ahead of time. This is the fundamental issue is the crystal ball is barely crystallized at that moment. Your point is definitely taken. We do conduct a market scan.

PHILIP DUBOIS: From my two TLDs I can tell you the numbers I will do in three years' time, I wasn't able to do that three years ago because I'm also a lot below my own plans but now I know.

CYRUS NAMAZI: This is Cyrus Namazi from Global Domains Division, I work with Mukesh in providing the funding forecast and essentially tracking the domain name market research. Your point is very valid but to be honest, if we were to ask sort of the major players, major meaning the new gTLD registers that actually have a relatively substantive presence in the market, the numbers that they would give us would probably double our budget, especially if you're asking two years or a year and a half ahead of time.

That's one sort of thing that we need to put some balancing act on it but to Mukesh's point, we do track, we've learned to track actually the top 15 I think it is, of the new gTLDs that actually contribute 75% of all the funding in that space to us. The other thing to keep in mind is that FY18 sort of declined in number of transactions in new gTLD space, was really primarily driven by a lot of speculative actions in the space that was primarily in the Chinese market.

We don't profess frankly to understand it the depth of what was driving that but there was a very substantial investment that was put in, in very inexpensive domains at the time and what happened in FY18 was that I guess the investors speculators changed their mind and they let these domains expire, which is a good thing frankly

because this was not an organic demand, what we call organic demand.

We're happy that we've now cleaned that pipeline, so what you see here is back to I think what we would consider a normal growth pattern. The market did shrink over the course 12, 15 months but it's now back to what we consider to be a more reasonable expected growth rate. Overall, exhibiting characteristics of frankly a mature market, single digit growth rate is what we're anticipating. I hope that helps.

XAVIER CALVEZ:

Just to add on that, some of the large players that influenced the volumes are also listed companies and providing projections to us is something they don't even necessarily do to their shareholders or that they don't necessarily want to do in the same fashion, so getting that information is also challenging. Certainly if you ask, as Cyrus said, if you ask people what their projections are, they're going to give you their expectations, which is sometimes desires and could very much be dreams as well.

UNKNOWN SPEAKER:

I would say probably registrars might be a more reliable source of information than registries because registrar definitely build their figures and expectations also for their shareholders but registrars are companies really know their source of current growth and if this

current growth is due to a particular campaign and if it could be supported by renewal figures next year.

BECKY NASH:

Thank you. We have a question in the chat from Phil Buckingham. Cyrus, I totally agree. Do the TLD registries have a contractual obligation to provide ICANN with their registration projections? I think not.

CRYUS NAMAZI:

Phil, thank you for that question. They do not. To follow up from the comment before, we do sort of informal check in with some of these players and sometimes they chose to tell us what we want to hear, sometimes they tells what they see and to [inaudible] point, I think the registrar is even much closer to the market and registrars typically have a much more feel for the entire domain name market of which that one TLD is one, so this is a very good suggestion that we will pursue.

But no, there is no contractual obligation for registries to share anything with us and a lot of times their business plans and projections are consider trade secrets and all of that and we try to respect that. We typically use multiple sources and we try to sort of project to see where the real truth is. The other important point to keep in mind is that when we fix the budget as Mukesh and Xavier and Becky mentioned 18, 20 months in advance, it's not like we stop actually tracking the market.

We're tracking the market in real time, we update our funding forecast to Xavier and organization on a quarterly basis based on the latest available data and all of that. The moment that we see there's a material change, then the organization takes the appropriate action and FY18 actual was an example of it, that you saw through the fiscal discipline that organization put in place. We actually ended up even having actual expenses below the reduced funding that we ultimately had.

SEBASTIEN BACHOLLET:

Thank you. Are you following the health of those registry, particularly the small, very small number of registrations, some of the very small registry and when I say that it's apart one who don't sell domain names like some TLDs but the one who tried to sell and they are not really successful in the market because I think one of our role as ICANN is to have an LC, some people say it's market, an LC market and therefore I think we need -- I know that there are tools to mitigate any problem they could have from the point of view of the domain name holders but before that we may think about a way to help them to survive, not have them to die. Thank you.

CRYUS NAMAZI:

Thank you for your question. Let's keep in mind, there are roughly 1,200 new gTLDs since about 2013 which amount to about, I think on average about 550 family of registries that are licensed contracted with us to operate. We don't track everyone of them, our main focus is

actually on the top 15 that Mukesh mentioned, to understand what's happening with them. By health I presume you mean the technical health, their operation health as well as their financial health, we do keep track of that. In our funding projections, we actually have a variable, an input that contemplates the reduction in the total number of contracted registries with us and TLDs.

Now, again to go back to a point that was highlighted before, most of the registries that were contracted with in the new gTLD space, their number of transaction on an annual basis falls below 50,000, which doesn't even then incur any transaction fees to us, it's just a fixed that is paid to ICANN.

SEBASTIEN BACHOLLET:

Maybe it's not the room to talk about it but my point is exactly, okay we can have less registry but for some of them it's not because they decided to go outside of the market. I know that some of registry decide to close because it's not anymore the goal of a company or whatever but there are some small registry who are still thinking that they could be useful for the community, for their region, for the group they are willing serve and if our only goal is to see if they died or not, I think we are wrong.

I understand that you follow the big one but we need diversity and diversity it's not just the big people. Therefore, I would like to see how you can follow a small group of registry who are not the brand TLD but small who are trying to survive in this environment because we may

need to help them and find a way to help them and for that we need to know what is happening. If you don't do that, maybe we can ask them to join together, to try to find, to have a subgroup of those registry and to work among them and review on the situation. It's maybe another way to do it. Thank you.

MUKESH CHULANI:

Thank you, Sebastien I understand now. It's really not a question related to the funding projects, it's really about sort of the -- I think if I hear you correctly, you're discussing a mechanism by which smaller operators who might be not able to meet their obligations for operating a registry and see what happens, that's frankly outside of my remit.

I have personal beliefs that I think having provided the opportunity for competition, for new competition with the new gTLD program there is going to be some fallout from it but I'm sure if this is for ICANN to interfere with. This is probably something you'd like to take into maybe a separate track of discussion I would suggest.

We continue, this slide presents a trend for transaction volume and the size of the contracted party base and just so we can zoom out so to speak, I've gone back as far as 2015, FY2015 so we can look at trends on a wider scale here. The first line summarizes total transaction volume and you will see we closed FY18 with roughly 187 million transactions and it resulted in a variance of -18.3 million because we budgeted 205.3 total transactions.

But, where did that come from specifically? When you look at the legacy gTLD transactions, we actually ended up with a positive variance there. It really arose from what you have in the third line, new gTLDs total, where we ended up with 22.6 versus a budget of 41.7 million transactions. From a lifecycle perspective, you'll note the legacy gTLDs have been fairly stable in terms of registration levels and so it's these well established transaction trends help us to forecast at this level of accuracy 18 plus months in advance.

I'll walk you through the exact situation for the new gTLD story. Take a look at FY15 actual, you had 7.3 million. Look at FY16 actual, 23.4 million and all we had to go with was the first quarter of FY17 and that quarter garnered 4.3 million transactions. In the prior year we had 2.8 million and in the prior year we had 1.5 million for that exact same quarter. We had a very strong upward trend and with that as our last data point as Xavier mentioned, there was even talk of a more aggressive trend. We put our finger on the 41.7 as the budgeted figure and that unfortunately did not materialize.

Legacies in total still account for 88%. I don't want to overstate the impact of this misses. When we miss about one million transactions, it results in an impact of roughly \$350,000, \$400,000 to ICANN. It's not small but it's something that can be factored in as margin. Of course, when we have this type of a miss, 19 million transactions, that has material impact. The impact of one million transactions off, is between \$350,000 and \$400,000.

I'll go now to the contracted party base. The size...

BARRY COB:

Would it be helpful to have a secondary line for new gTLDs total? If I am reading this right and forgive me if I missed if this was discussed but in terms of actual revenue based off these transactions, it's only those TLDs above 50,000 domains and there's only 35 TLDs that are above 50,000. Would it be advantageous to have a granular level of just those domains above 50,000 in addition to the total market?

MUKESH CHULANI:

Thank you for the question. I'm sorry, that's actually what that very next line says, the new gTLDs billable, is only that subset which ends up remitting the 25 cents fee to ICANN. When you look at the entire subset of that 41 not 41, entire subset of the 22.6 total transactions, the subset for which fees were remitted or should have been remitted, is 19.5 million transactions and that results in a billable rate in the mid to high 80's, that's roughly the billable rate we're looking at.

I will move to the second matrix there on the base of the contracted parties. Of course, the size of that has a direct impact on funding from a fixed fee perspective. In terms of registries, our legacy base is steady at 22 and you will see the new gTLDs slowly have moved to discount of 1,218 actual for FY18. You'll see later when we discuss FY19, that we are essentially now just looking at a trickle of new delegations, so we're expecting, 1,221 in FY10, 1,221 and Cyrus likes to refer to this as having reached cruising altitude.

You'll see in the last row the total base of registrars, of course that also impacts funding because of the accreditation fee for anybody that's in that base as well as the fixed fees they pay. We closed FY18 with 2,467 and our assumption in the budget was 2,241. There's of course, organic growth in that registrar and it's been historically 15 each quarter, that's what we've been forecasting.

There are large swings in that base and you can see it's gone from 1,500 to 2,100 to 2,900 and that's attributable to a handful of organizations that obtain accreditations in one go and it's intended to optimize how they perform, what's known in the industry as drop catching services. There is that subset which is introducing some uncertainty. It's not as certain as the registry fixed fees because here you have wider swings. We continue to be conservative when we forecast, we don't assume any swings for this subset. We do 15 a quarter and that is how we perform the forecasting for the registrar base.

I'm moving to the FY19 budget unless there are any questions. On this slide we have our FY19 funding projection, which 137.7 million best case. This is essentially 3.8% decrease over our FY18 levels. I'd like to note that while we have lower expectations of funding in FY19 then we did in FY18, when you look at that absolute funding level, we're still projecting an increase because we hit 133.9 actual and now we are saying that we project 137.7.

Looking at it from budget to budget, yes it's a decrease but from where we were in terms of actuals to what we are saying is likely to

happen, it's a 2.8% increase. We are in a mature market, in a much more mature market, no hyper growth. I'd also like to caution this thought that we are in a down market. We are in a slow upward market.

On the left side we have funding driven by the domain name registrations. Up at the top is the subset that's coming from registries and that totals about 40% of funding for FY19 at 54.7 million. The bottom left shows the commentate fees from the registrar side and that's at 34.5 million dollars or 25%, those are the transactions fees driven component of the funding for FY19.

On the right side then is the funding component driven the number of contract parties. 30.5 million is expected from the registry side of if, registry fees and 14.7 million or 11% of it coming from the various fees remitted by registrars, accreditation and application fees.

Lastly, you have other, which I've already mentioned, comes from the contributions by ccTLDs, RIR's and meeting sponsorships as well as other miscellaneous income, that's at 2% of FY19 funding at 3.4 million.

If you look at it from a wide angle view, you'll have variable funding accounting for two thirds of total funding and then you have fixed fees accounting for the remaining one third of funding, that's generally what we're envisioning for FY19.

I will pause in case there are any questions.

UNKNOWN SPEAKER: It's already one quarter of this financial year past, does the current trend in terms of quantity of transaction confirm your projections?

MUKESH CHULANI: Thank you, thanks for the question. Indeed, so far we are tracking at this level but there has been no huge restatements to this level of 137.7 million, we are tracking to it.

I'll take us to the next slide and this slide is a personal favorite of mine because it really shows us the wider expectations we have of this market. Again, I will just draw your attention to specific things. I could spend a lot of time talking about this one but I'm not sure you are too interested in that. Let's just look at those arrows at the very top and the arrows at the very bottom. It shows us how this market is maturing.

When we looked at the bottom, which is actual to actual, we have moved this market from 22.9% growth between FY15 and FY16 and the subsequent year we increased 7.2% and then the next year I would say flat. That is exactly what is happening as well with the budget at more conservative level. Where is actual grew 22.9, the budget grew 16.8 where the actuals grew 7.2, the budget grew 7.8 and where as actuals are flat, our budget now is minus 3.8, I think reflects both expectations of a maturing market and a conservative approach towards the budget process.

I've describe our approach for projection of legacy TLDs prior, where we evaluate the historical trend for domain transactions for FY19, we assume a growth of 2.1% for legacy gTLDs, this equates to somewhere in the neighborhood of 167.9 million transactions verses 164.5 million transactions as actuals. 167.9 is the budget and 164.5 is the actuals for prior year.

For new gTLDs there are 1,221 TLDs that we assume to be delegated by June 31, 2019. We're assuming essentially that this is going to slightly increase our base from 1,218 and the number directly drives fixed fees, so for each of those TLDs there's \$25,000 worth of funding each year to ICANN and that's the component which was rather predictable in terms of forecasting.

The next part here is driven by transaction fees paid by registrars and registries to ICANN and for that we assume a growth of 5.8% versus FY18 actuals. We're reflecting these revised expectations of growth given the transaction volume trends we're seeing. We do believe there is a growth trend here but it's definitely not the hyper growth scenario we had in prior years. It equates to somewhere in the neighborhood of 23.9 million transactions verses the actuals of 22.6 million in FY18. Again, roughly we assume 85% billable to ICANN.

Registrar accreditation is another source of funding and it's here it's broken down by application fees. This the \$3,500 charged to each applicate. As I mentioned, there's has been a wide range in the count of applications, we have seen swings because of the bulk applications submitted by registrars interested in drop catching. We remain

conservative, we apply the assumption of 60 accreditations a year and that's been the historical average when we strip out those spikes. Essentially we are saying those spikes are outliers.

Next fee is the accreditation fee paid by each registrar \$4,000 a year and that could move up or down based on the base of registrars. In this case our base is 2,277, that's assumption for FY19.

The last fee is the \$3.4 million which is a constant, becoming a variable only to the registrars, it's a rather confusing term to be constant and variable at the same time.

SEBASTIEN BACHOLLET:

I wanted to know what was the result of the decrease of the fee for the registrar, the registration fee, the first one on your previous slide, application fees because if I remember well, it was \$5,000 and we'd decreased to \$3,500 six or seven years ago, what was the consequences of that? Next time.

MUKESH CHULANI:

I can tell you the hypothetical impact of it, this is predating my time obviously but the impact is, let's say \$1,500 if that were the fee, I'm not sure but if it were the difference of 1,500 multiplied by 2,000 registrars, you'd have that impact.

SEBASTIEN BACHOLLET: I am sorry. I understand your answer but my question was not well framed. The consequences of number of registrar, the number of dollar I guess, I'm sorry but I guess I can but my questions how much more registrar we get from not well deserved region? How many we get for second market in addition to that? What are the consequences on the market of the registrar, on the number of registrar, not the consequences on the budget of ICANN, even if at the end it could be also interesting.

MUKESH CHULANI: Thank you and sorry for misunderstanding the question. For the forecasting exercise Sebastien, that is not an input in which I look at , so unfortunately I don't have visibility into those types of impacts into ICANN. At this point I think maybe we could take that to a different venue. I'm not sure how to respond to it. I don't have visibility into it.

For FY20, just wanted to reiterate our assumptions to generate what our projections will be. The quarter ending September is complete, we should be getting that data rather soon. These are essentially the assumptions we are going to use for the FY20 forecasting effort. As I mentioned prior, we will create scenarios for low, medium and high. Our highest confidence estimates will be best estimate and that's what will be used in the budget, with the variance provided by low and high estimates, providing this sensitivity analysis type of view for us.

As you see, there is no change to the fee schedule structure in FY20, we are not making that assumption. In terms of applications fees, I've

mentioned we are adopting a conservative view, so 60 registrars a year, split equally across each of the four quarters. Accreditation fees would be the base multiplied by the annual which doesn't change, so \$4,000 and this per registrar variable fee also stays stable to end the fiscal year, so 3.4 million dollars. I've mentioned to you how we would evaluate the transaction levels for legacy and new gTLDs, so we would look at historical trends coupled with feedback from the market.

We zoom into the remaining delegations and evaluate delegation dates, not only do we look at delegation dates, we also look at possible terminations, so we do have a field where we look at this may not be a plus quarter, this maybe a minus quarter in terms of delegations. Volumes will be forecast, including the historical growth averages as our assumption.

With that, I thank you for your time and I'm open to questions if there are any further questions.

UNKNOWN SPEAKER:

Considering what has happened to the FY2017/2018 budget, the analysis, do you think it is wise to even expect some improvement? Especially the new gTLDs? I know you have those you think that would survive whatever would affect the market, with the fact just like Sebastien mentioned, there are some that are really struggling, I think it's 2% increase. I know it's conservative but can't you come down from 2 too, considering the reality on the market, like 1.5?

MUKESH CHULANI:

Thank you for the question. Actually if you are speaking only of the base of transactions for new gTLDs the assumption is closer to 5.8% growth. 2% maybe for the legacy transactions. 2% is for that wider base of 160 plus million transactions and then this base of 20 million some transactions which is rather fluctuating, that one we expect to grow at 5.8. These are done on a very careful basis, so we do evaluate them.

Each of the top 12 new gTLDs are evaluated on an individual basis, in tandem, they account for about two thirds of billable transactions but we don't stop there actually, we combine all the other new gTLDs that have between 100,000 and 499,000, we combine them and analyze them as a whole and we also analyze anyone less than 100,000, we also combine them and analyze them as a whole. Those are also factored into our evaluation.

It's just that because of this criteria of 50,000 threshold, they don't have an impact yet into funding but we do look at them because that might change, very it quickly it might change. The market can go up or down, spikes and valleys based on certain activities so we can have consolidation, new price promotions, we're constantly looking at it on a quarterly basis. The values so far we have here, we are tracking towards that but we look at it on quarterly basis and that might change up or down based on the reality of that quarter. Thank you for the question though.

BARRY COB:

I've been watching the budget for a while and especially this area because I also in my other side life I also track registration stats and I've always been confused about how we're using the terminology of billable and how those numbers were presented in the budget but now it's finally clear to me now and I'm presuming that if I'm having a hard time, others are having an equally hard time.

On your slide one of two of the ICANN Ops Funding Key Assumptions for the new TLDs the transactions based fees, you mentioned the 5.8% growth verse FY18 actuals, that's still the total market number which is almost irrelevant. It's really again about those TLDs and as you mentioned you're looking below the 100,000, the 100,000 to 500,000 and the then others and so I was mistaken earlier, I said 30 TLDs it's actually 63 that are about 50,000 now.

I guess it would maybe be helpful if that second bullet was changed for looking at growth of just those TLDs that will get or remain about 50,000 because as Cyrus mentioned earlier, I think we're still living in a skillitative area. Thank you.

MUKESH CHULANI:

It's also an aha moment for me. I think it's pretty good recommendation. To provide two different growth figures may give better context, so overall market growth and then billable, the expectation of that billable subset.

XAVIER CALVEZ:

This is reflecting what Barry just said and your collective ah ha moment is also reflective the challenge we sometimes face which is being able provide both a very accurate and sufficiently granular set of information and at the same time not over complexify the messages that we provide because then it becomes really technical.

This is the constant balance we try to -- there is the information, there is the indication and then there's the expertise and you are moving quickly into the expertise bucket Barry and not everyone is necessarily having the same understanding that you have, we need balance that but certainly having comprehensive, accurate representation of that information is very helpful.

More technically speaking, we also see that the fraction of billable verse total, is a quite stabilizing percentage, which therefore means that sometimes using the total number is sufficiently accurate, depending upon who you are talking to.

Now, you have understood that distinction, so you can use that and you will continue providing that information but when we quality trends generally speaking like from a commenting standpoint, we've tried to minimize the complexity of what we're saying by simply using the total number of registrations, also because the fraction that's billable within it, is relatively constant. We're not misleading my quoting the variances if you see what I'm saying. Thank you.

BECKY NASH:

Thank you very much. We want to thank all of the participants as we close this session both here at ICANN63 and also those that are participating remotely. I do want to thank Mukesh and Cyrus, Nathalie and all of the finance team.

We really do appreciate everybody's participation. If there are any unanswered questions, we're happy to answer them to our email list at planning@ICANN.org and then just as a reminder, the draft PTI and IANA Operating and Budget is currently posted for public comment and that closes in early November. The next key will be the draft ICANN Operating Plan and Budget, which will be posted in early December. Thank you very, everyone. Good bye.

[END OF TRANSCRIPTION]