

I C A N N
ANNUAL GENERAL

63

BARCELONA

20-25 October 2018



Budget Working Group - Part 1

Review and Q&A

Xavier Calvez, ICANN CFO
Becky Nash, ICANN VP Finance
Shani Quidwai, ICANN Director of Finance

ICANN 63

25 October 2018 – 1030-1200



Presenters



Xavier Calvez
ICANN CFO



Mukesh Chulani
Registrar Services
Senior Manager



Becky Nash
ICANN VP Finance



Shani Quidwai
ICANN Director of Finance



Nathalie Vergnolle
MSSI Sr Manager

Part 1 Agenda

FY18 Results

Timing: 20min

ICANN FY20
Operating Plan and
Budget Planning
Process
Timing: 10min

PTI/IANA Operating
Plan and Budget
Highlights
Timing: 10min

Strategic Planning
Update

Timing: 15min

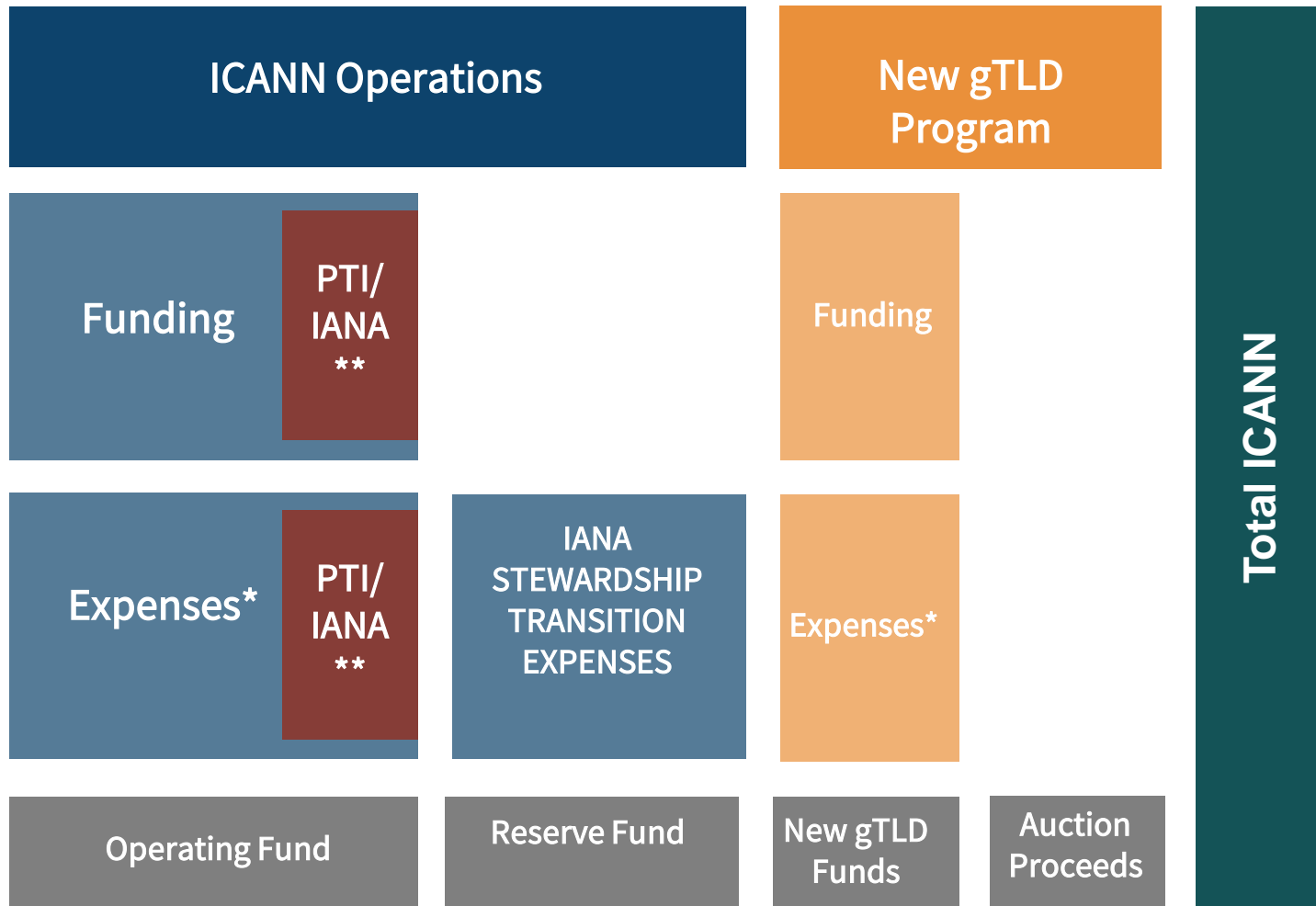
Finance Topics:
Reserve Fund
Replenishment Strategy
Multiyear Budgeting
Timing: 20min

Q&A – General

Timing: 15min

FY18 Results

FY18 ICANN Organization Reporting Structure



*Excludes depreciation and bad debt expenses

**IANA Services includes ICANN's and PTI's IANA Expenses

FY18 Year End Financial Highlights

- ◎ ICANN Operations generated an operational excess of \$2M, actual funding of \$134M and cash expenses of \$132M
- ◎ ICANN Operations funding was \$1M lower than FY17 and \$9M lower than our budget
 - This is mainly due to a slower than anticipated growth of the new TLDs registrations.
- ◎ We were successful in managing our FY18 expenses, \$2M lower than FY17 and \$14M lower than the budget
 - Given the stabilization of our funding growth, which resulted in a shortfall from the budget, ICANN org took action and reduced costs so that our expenses would not exceed funding.
 - Expenses were lower than budget across all cost categories

FY18 Financial Overview

ICANN OPERATIONS

Funding and Expenses below target.

	Actual	Budget	Var	% Var	FY17	Var	% Var
Funding	\$134	\$143	-\$9	-6%	\$135	(\$1)	-1%
Expenses	(\$131)	(\$143)	\$12	-9%	(\$128)	(\$2)	2%
IANA Stewardship Transition Expenses	(\$1)	(\$3)	\$2	-57%	(\$5)	\$4	-75%
Net	\$2	(\$3)	\$5	N/A	\$1	\$1	78%

Breakdown of Expenses	Actual	Budget	Var	% Var	FY17	Var	% Var
IANA Services	(\$8)	(\$10)	\$2	-23%	(\$6)	(\$1)	22%
All Other	(\$123)	(\$133)	\$10	-8%	(\$122)	(\$1)	1%

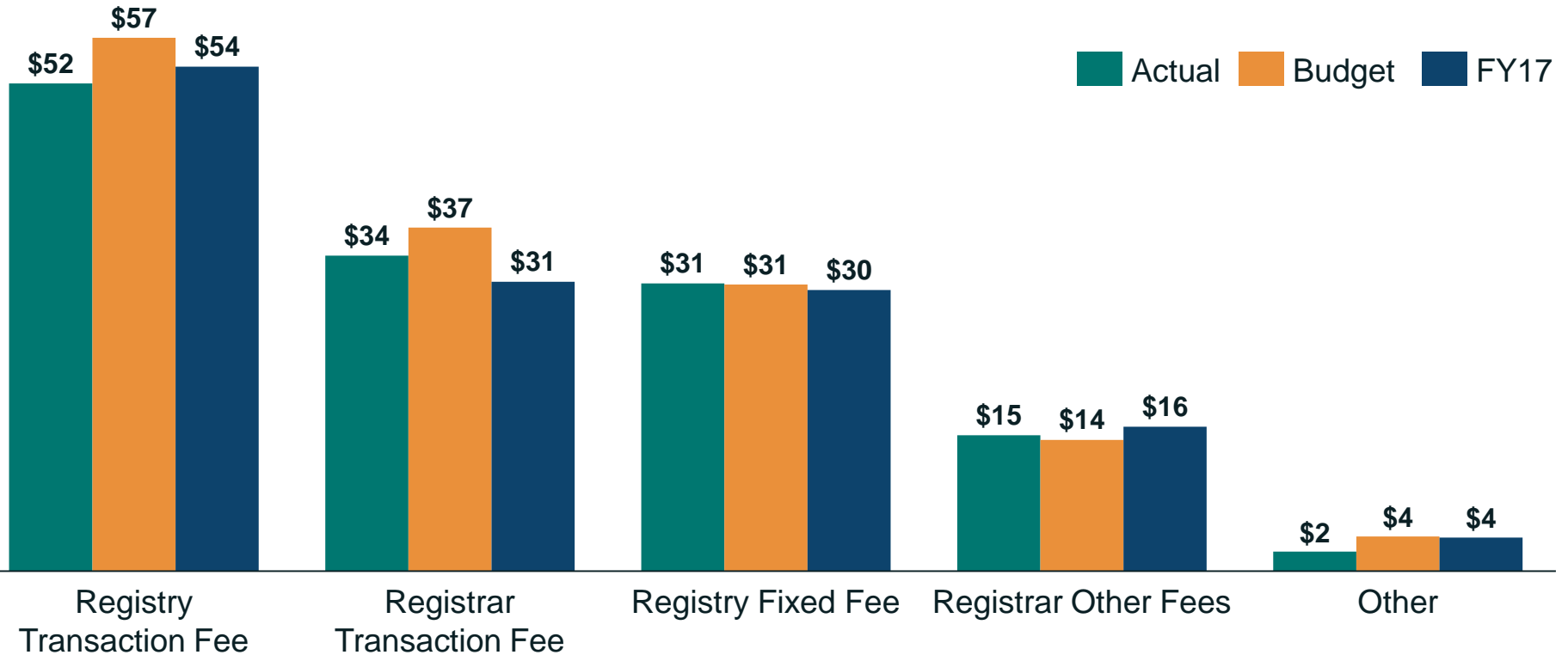
Note: Expenses exclude bad debt and depreciation and include capital expenses.

FY18 Funding vs Budget and FY17

ICANN OPERATIONS

Funding lower than budget primarily due to slower than expected growth of the new TLDs registrations

Actual: \$ 134
Budget: \$ 143
FY17: \$ 135



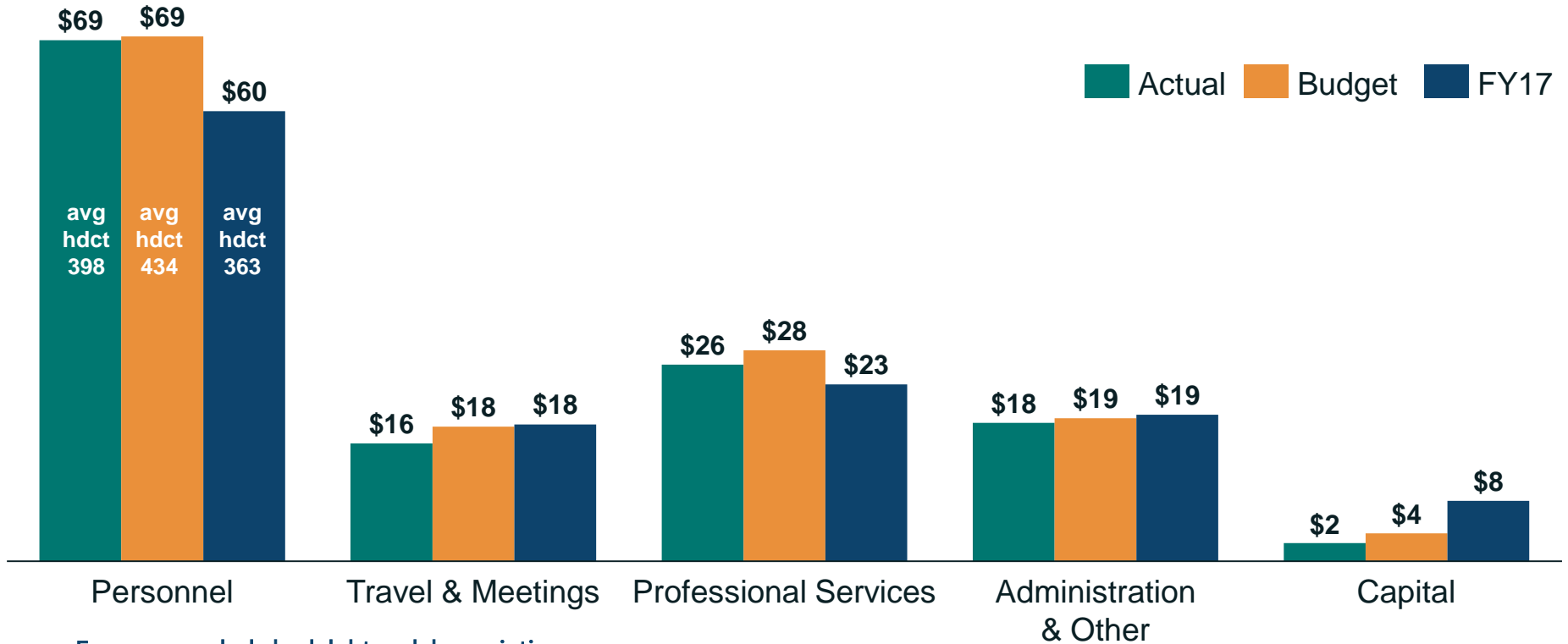
In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

FY18 Expenses vs Budget and FY17

ICANN OPERATIONS

Expenses lower than budget due to favorability across all cost categories

Actual: \$ 131
 Budget: \$ 143
 FY17: \$ 128



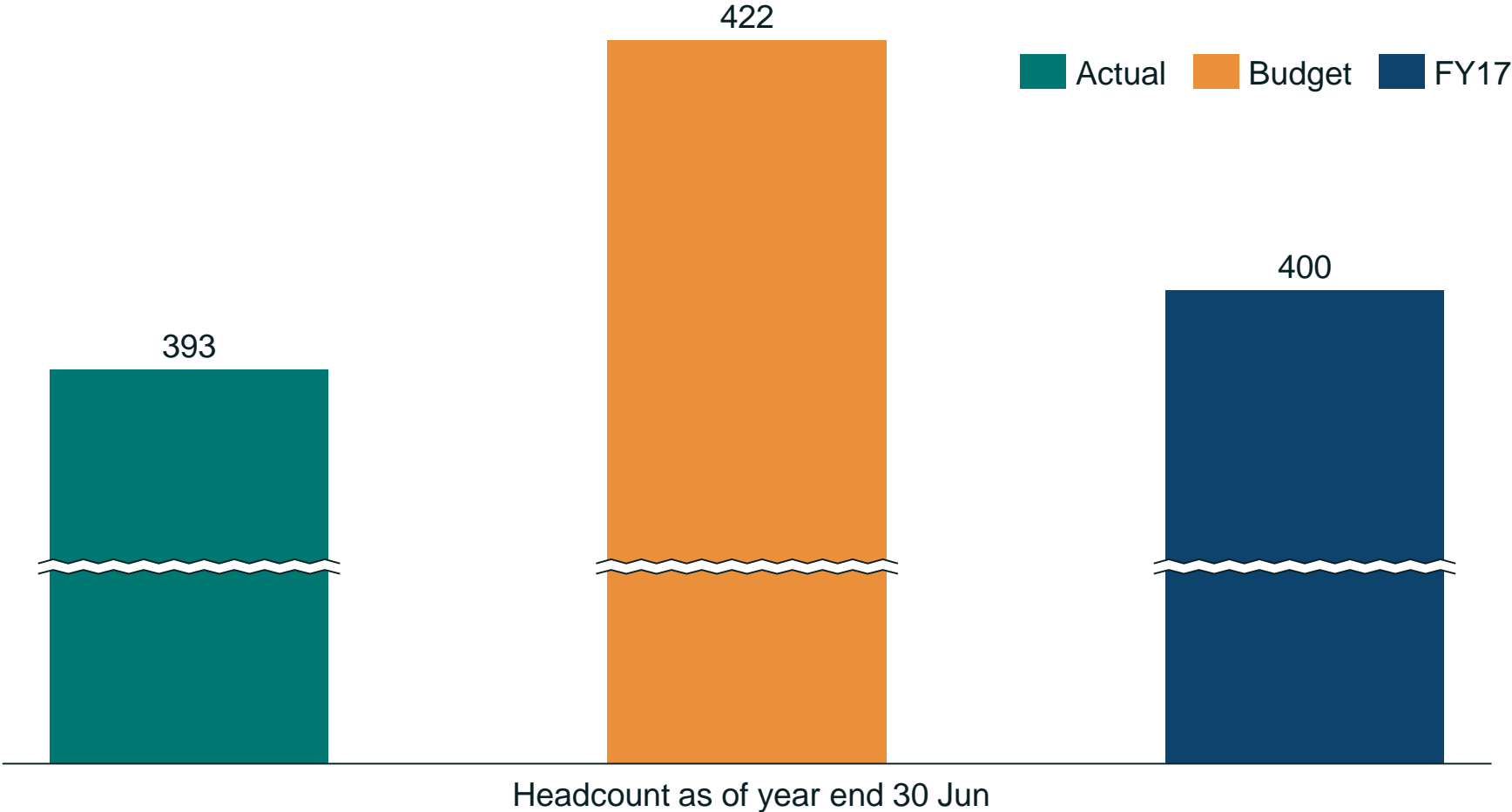
Expenses exclude bad debt and depreciation.

Avg hdct: Average Headcount over a 12-month period (Jul 2017 – Jun 2018)

In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

FY18 Headcount vs Budget and FY17

FY18 ICANN Headcount declined compared with FY17 and was lower than budget



FY18 Total ICANN Organization Actuals

TOTAL ICANN ORG.

	ICANN Operations (A)	IANA Stewardship Transition (B)	Total ICANN Operations (A+B)	New gTLD Program (C)	Total ICANN Org. (A+B+C)
Funding	\$134	\$0	\$134	\$6	\$139
Expenses*	(\$131)	(\$1)	(\$132)	(\$10)	(\$142)
Net	\$3	(\$1)	\$2	(\$5)	(\$3)

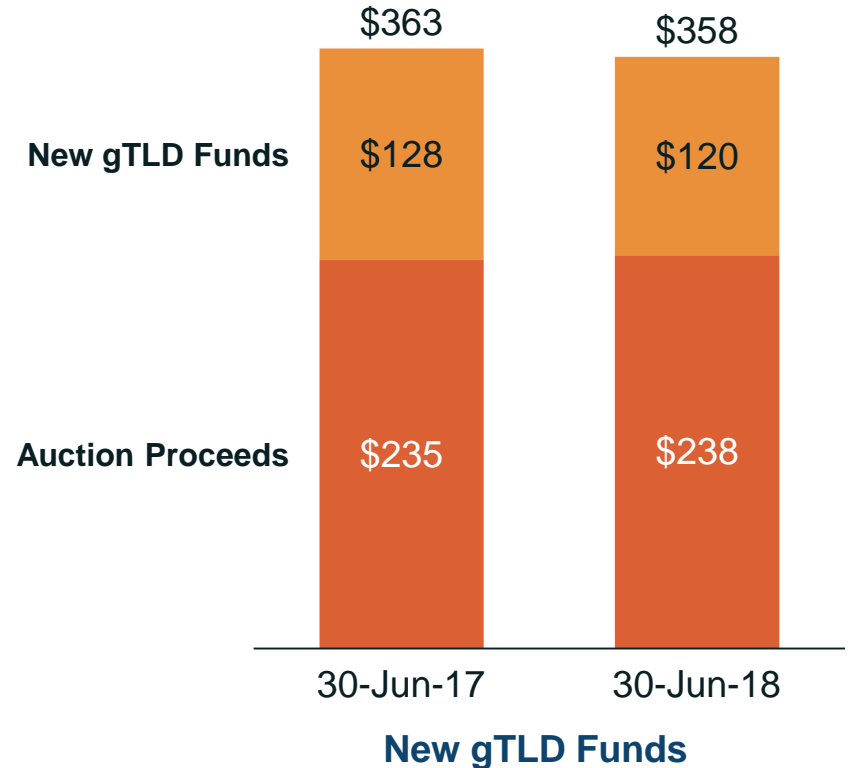
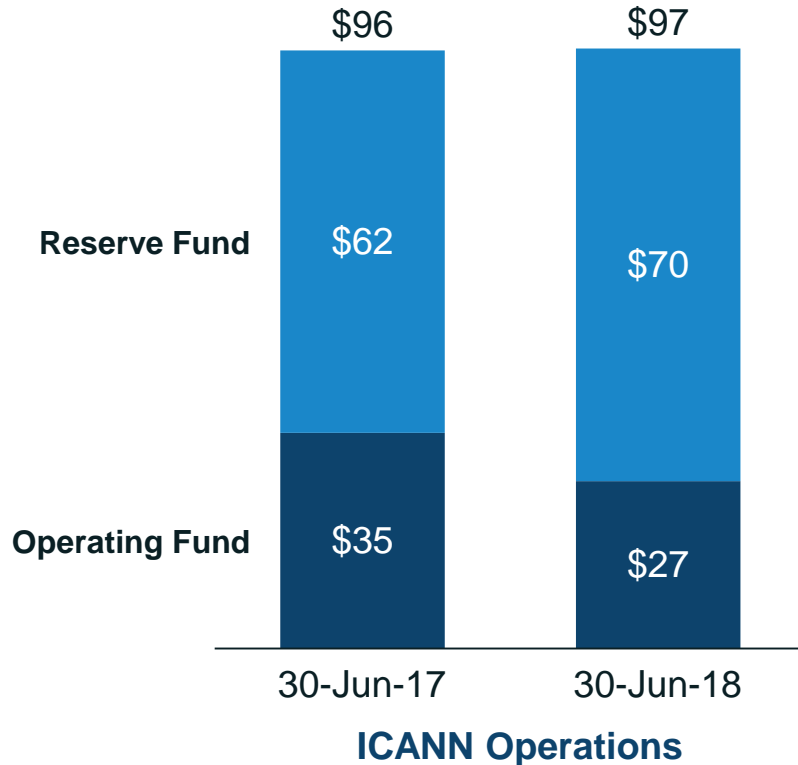
Total ICANN Operations is the sum of ICANN Operations (A) and IANA Stewardship Transition (B). Total ICANN Organization is the sum of ICANN Operations (A), IANA Stewardship Transition (B), and New gTLD Program (C).

*Expenses exclude bad debt, depreciation and refunds for withdrawn New gTLD applications which are included in the Funding line.

Funds Under Management as of 30 Jun 2017 and 2018

FUNDS UNDER MGMT.

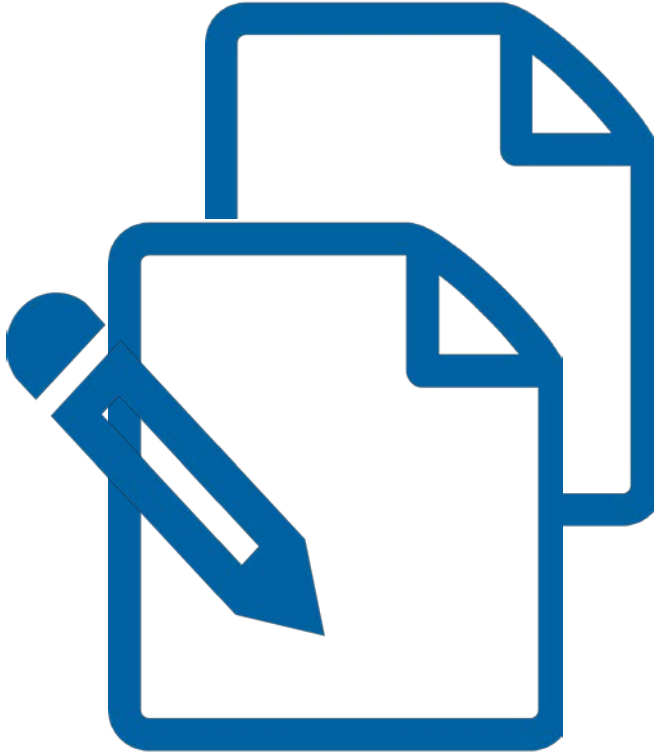
Total Funds: \$ 455
ICANN Operations: \$ 97
New gTLD Program-related: \$ 358



In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

ICANN FY20 Planning Process

Process Overview: Deliverables



- ICANN consults the community on its draft plans every year. The delivered plans are:
 - Strategic Plans (ICANN and IANA/ PTI)
 - Five Year Operating Plans (ICANN and IANA/PTI)
 - Annual Update to the Five Year Operating Plan
 - Annual Operating Plans and Budgets (ICANN, IANA/PTI)

Planning Structure

Community input



ICANN Org



ICANN's Work Structure



Project Terminology

Term	Definition	Examples
Cross-functional Projects	<ul style="list-style-type: none">• Multiple departments• Unique deliverable / introducing an activity• Work stops with deliverable	Information Transparency Initiative
Functional Projects	<ul style="list-style-type: none">• One department• Unique deliverable / introducing an activity• Work stops with deliverable	Introduce post-interaction survey
Recurring Activity	<ul style="list-style-type: none">• One department• We've done it before and are doing it again• Regularly repeated	General operations, performance management, and training

Key Process Updates

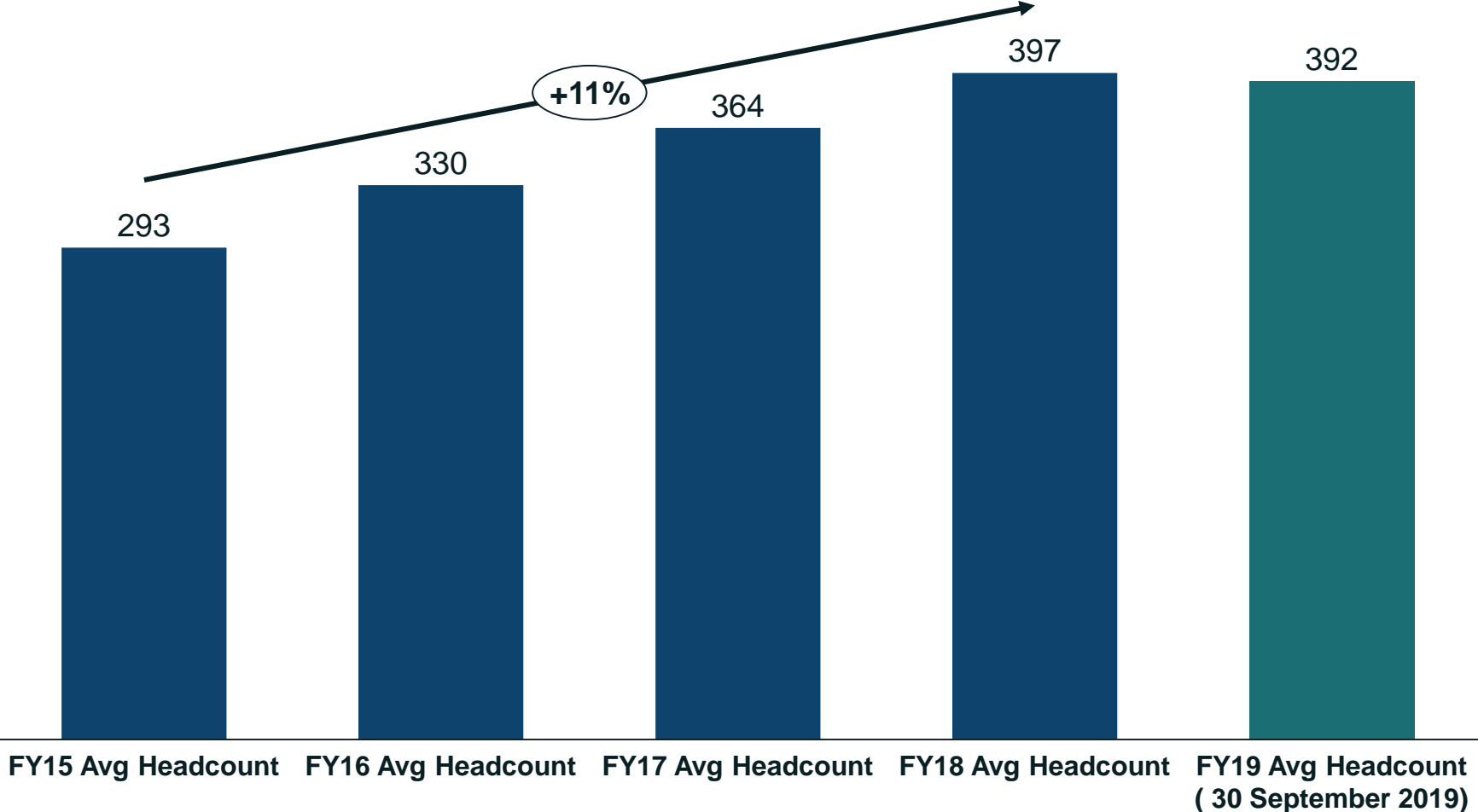
- ⦿ Revised timeline
 - The adoption of the ICANN Budget is one month earlier than FY19
 - To permit Board approval well in advance of the next fiscal year
 - Provides time for the Empowered community process (28 days) before the start of the next fiscal year
- ⦿ Timing of Approval for SO/AC Additional Budget Requests
 - Current process results in approval at the same time as overall Board approval
- ⦿ Multi Year Planning Process
 - Planning for the remaining year of the Five Year Strategic Plan (2016-2020)
 - Alignment with the next Five Year Strategic Plan (2021- 2025)
 - Designing a 2 year planning process

FY20 Planning Expense Assumptions

- ICANN organization activities and projects result directly or indirectly from Bylaws requirements, and from decisions made by the Board based on community-led policies or recommendations
- The funding growth for FY20 remains relatively flat
- ICANN needs to carefully plan and prioritize during the budget process, as well as make savings in order to not spend beyond ICANN's means

ICANN Operations Headcount Trending

ICANN Operations Headcount had been growing 11% on average, In FY19 headcount has begun to stabilize in alignment with our Funding



What FY20 documents do we publish?

PTI and IANA



PTI Operating Plan & Budget



IANA Budget

ICANN



ICANN Operating Plan and Budget



5 Year Operating Plan Update



Project and Portfolio Spreadsheets

Additional Budget Request: FY20 Process and Key Dates

Community Kick off and
Submission period

5 November 2018- 25 January 2019

SO/AC Consultations
at ICANN 64

9 March 2018-15 March 2018

Notify SO/ACs of Publication

3 May 2019- 6 May 2019

Publication on Website

6 May 2019-2019

Total ICANN FY20 Planning Timeline – Key Dates

Step	Dates	Action By	Note	Complete
FY 20 Planning Kickoff Webinar	1 Aug/2 Aug 2018	ICANN org	FY20 Planning Process and Timeline	✓
ICANN 63 Budget Working Group	25 October 2018	ICANN org/Community		✓
ICANN Public Comment Period	17 Dec 2018 – 08 Feb 2019	ICANN BFC	54 Days including 7 days for Year End	
Submit Clarifying Questions	17 Dec 2018 – 11 Jan 2019	Community	26 Days including 7 days for Year End	
ICANN Staff to Publish Clarifying Questions Report	29 Jan 2019	ICANN org	Staff Report Published	
ICANN Staff Report on Public Comment Published	18 Mar 2019	ICANN Board	Staff Report Published	
ICANN Publishes Proposed for Adoption Budget Draft	22 Apr 2019	ICANN org		
ICANN Board Adopts	6 May 2019	ICANN Board	Target to allow for EC Review Period	

PTI FY20 Planning Timeline – Key Dates

Step	Dates	Action By	Note	Complete
PTI & IANA OP&B DRAFT Submitted to PTI Board & ICANN BFC	26 Sep 2018	PTI Board	At Least 9 Months Before Next Fiscal Year (Input to ICANN OP&B Per Bylaws)	✓
Submit Clarifying Questions	28 Sep– 5 October 2018	Community	8 days	✓
PTI & IANA Public Comment Period	28 Sep – 12 Nov 2018	Community	50 Days including 7 days for ICANN 63	
ICANN Staff to Publish Clarifying Questions Report	12 October 2018	ICANN org		
PTI & IANA Staff Report on Public Comment Published	26 Nov 2018	ICANN org		
ICANN Publishes PTI & IANA Proposed for Adoption Budget Draft	5 Dec 2018	ICANN org		
PTI OP&B Adopted	13 Dec 2018	PTI Board		

How can I participate



Attend Budget Working Group or Finance Related sessions at **ICANN Public Meetings**.
Visit meetings.icann.org



Find and participate in an ICANN community group.
Visit icann.org/community



Subscribe to the community-finance@icann.org email list for regular updates on planning activities.



View current year plans for reference online.
Visit icann.org/planning



Review plans and budgets available for public comment.
icann.org/public-comments



Work with your group, or submit your own comments about changes you would like to see.
icann.org/public-comments

PTI/IANA Operating Plan and Budget Highlights

PTI/IANA Operating Plan and Budget Highlights

- PTI's Draft FY20 Operating Plan and Budget was developed from July through September 2018
- The six-week Public Comment will start 25 September, 2018 and encompasses ICANN 63 in late-October
- Responses to Public Comment will be available for a review by the PTI Board at the end of November 2018
- PTI Board adoption expected in early December 2018
- ICANN BFC adoption expected mid December 2018

PTI Budget Highlights

1

PTI Funding/ICANN Funding

FY20 Funding of PTI from the ICANN Subcontracting agreement is \$10.0M

2

PTI baseline cash expenses

FY20 Expenses of \$10.0M (including \$0.5M contingency) remained flat to FY19 Budget with higher professional service costs (\$0.4M) offset primarily by lower Travel and Meetings, Administration, and Capital expenses (-\$0.3M)

3

PTI contingency

Contingency of \$0.5M remains flat in FY20 as compared to FY19. Contingency is 10% of the direct dedicated costs and represents an amount of budgeted expense unallocated to specific activities or departments

4

Capital Budget

Capital for FY20 is for a Hardware Security Module (HSM) Replacements and Key Management Facility (KMF) improvements

TOTAL PTI in Millions, USD	PTI Services FY20 Budget	PTI Services FY19 Budget	Increase/(Decrease)		PTI Services FY18	Increase/(Decrease)	
			Total	%		Total	%
Operating Expenses (a)	\$9.9	\$9.8	\$0.1	1.0%	\$7.8	\$2.1	27.3%
Capital	\$0.1	\$0.2	(\$0.1)	-47.5%	\$0.0	\$0.1	205.2%
TOTAL	\$10.0	\$10.0	(\$0.0)	-0.1%	\$7.8	\$2.2	28.1%

(a) Included budgeted contingency of \$0.5M.

FY 20 IANA Budget

FY20 IANA Budget in Millions, USD	FY20 IANA Budget	FY19 IANA Budget	Increase/(Decrease)		FY18 IANA Actuals	Increase/(Decrease)	
			Total	%		Total	%
PTI Services	\$10.0	\$10.0	(\$0.0)	-0.1%	\$7.8	\$2.2	28.1%
IANA Services (a)	\$1.0	\$0.5	\$0.5	114.8%	\$0.3	\$0.7	271.2%
TOTAL	\$11.0	\$10.5	\$0.5	5.1%	\$8.1	\$2.9	36.4%

(a) IANA Services includes the Root Zone Maintainer function, Customer Standing Committee,

Root Zone Evolution Committee and IANA Naming Function reviews

These costs are funded by ICANN Operations.

- ❑ The IANA Services budget is \$11.0 million in FY20 which is 114.8% higher than the FY19 Budget
 - Personnel costs increased \$0.15M in FY20 as compared to FY19 due to the addition of support for the IANA Naming Function review and the CSC Effectiveness review
 - Travel and Meetings increased \$0.3M due to costs for 15 review team members to travel to each ICANN Public Meeting per the ICANN bylaws
 - Professional Services increased \$75K from FY19 due to costs for a potential root zone maintainer caretaker role

FY21-FY25 Strategic Planning Update

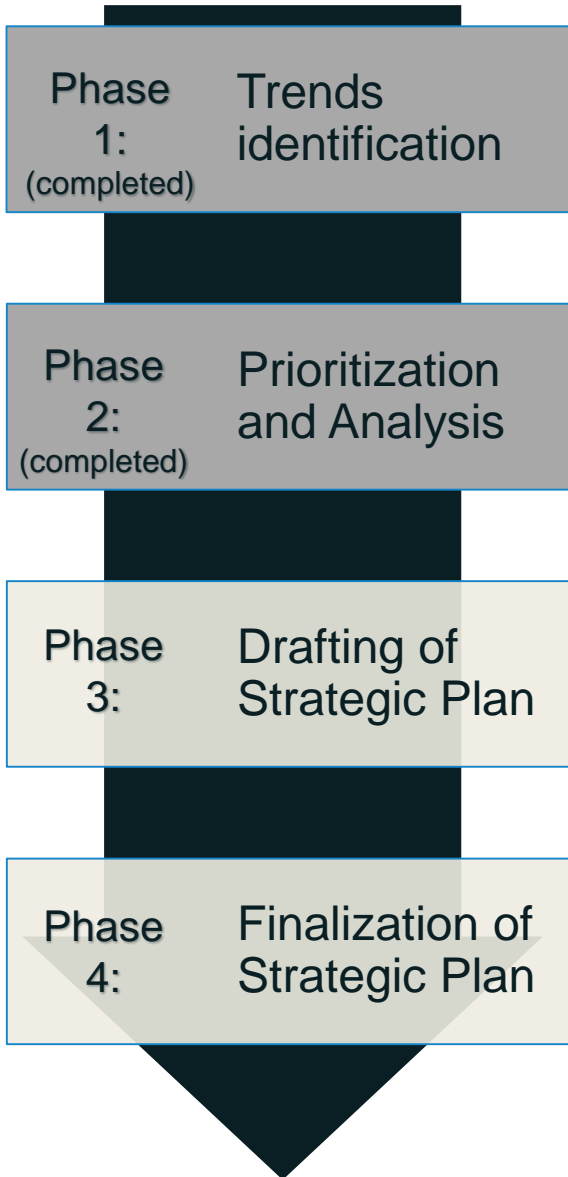
The structure of the strategic plan remains mostly unchanged:

- ⦿ The strategic plan is composed of three main components:
 1. Vision
 2. Mission
 3. Strategic objectives & goals

- ⦿ New : fully costed five-year operating plan

- ⦿ Link to [ICANN's current strategic plan \(covering fiscal years 2016 to 2020\)](#)

Steps towards next Strategic Plan – where are we in the process?



- ✓ Community, Board and Org participate in trend sessions
- ✓ Org consolidates results

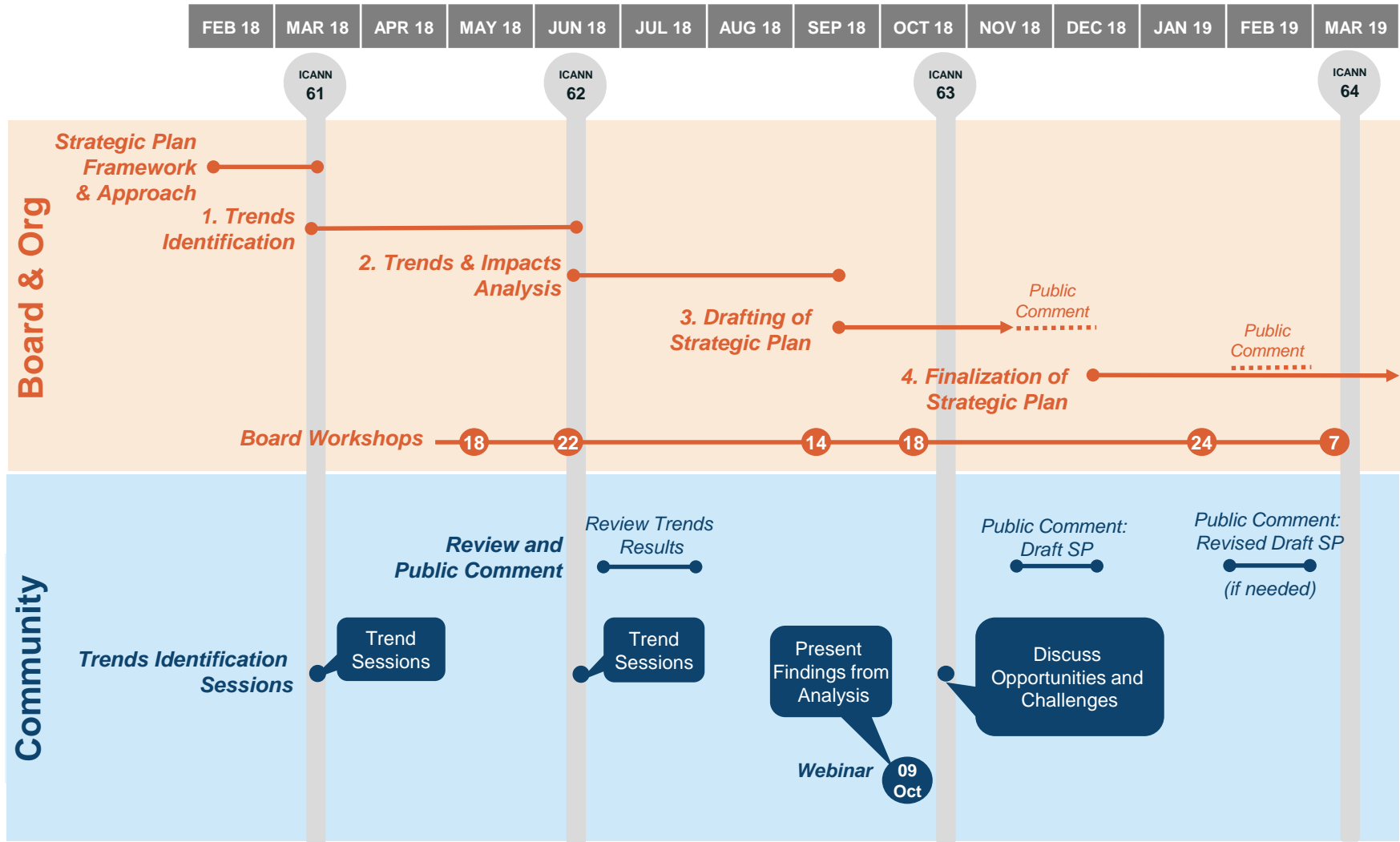
- ✓ Board analyzes trends and identifies opportunities and challenges on ICANN, with org's support
- ✓ Community is informed of findings

- **Community provides input to help work through challenges, opportunities, and strategic directions (session @ICANN63)**
- Org drafts strategic plan
- Board reviews draft strategic plan
- Community is consulted via public comment period

- Org revises draft strategic plan based on input from public comments
- 2nd public consultation if necessary
- Board finalizes and adopts five-year (2021-2025) Strategic Plan

Mon, Oct 22
13:30 - 15:00
Rm. 111/112

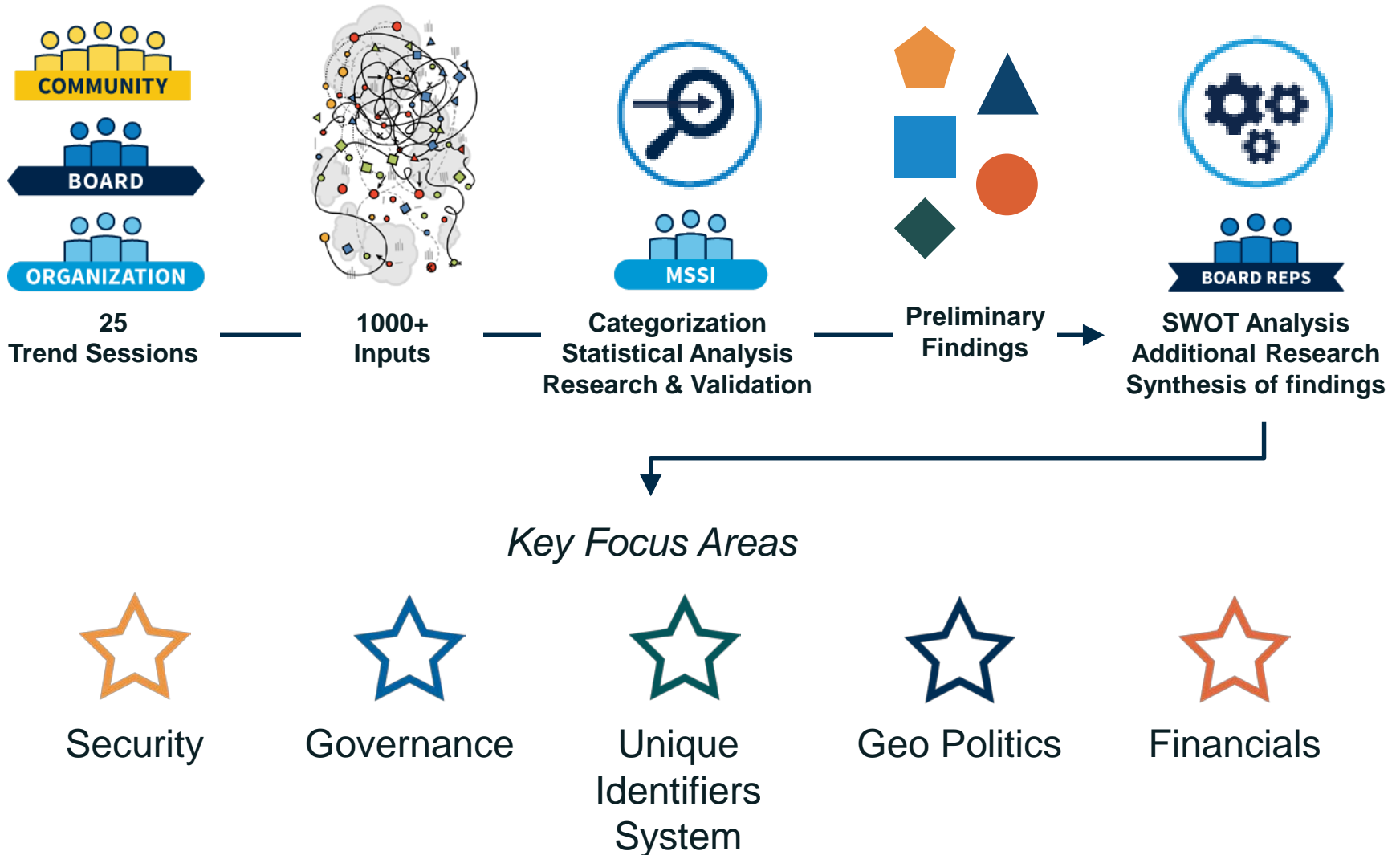
Where are we in the process? And opportunities for participation



SP – Strategic Plan

Process to Arrive at Key Focus Areas

1,400 collective hours to-date

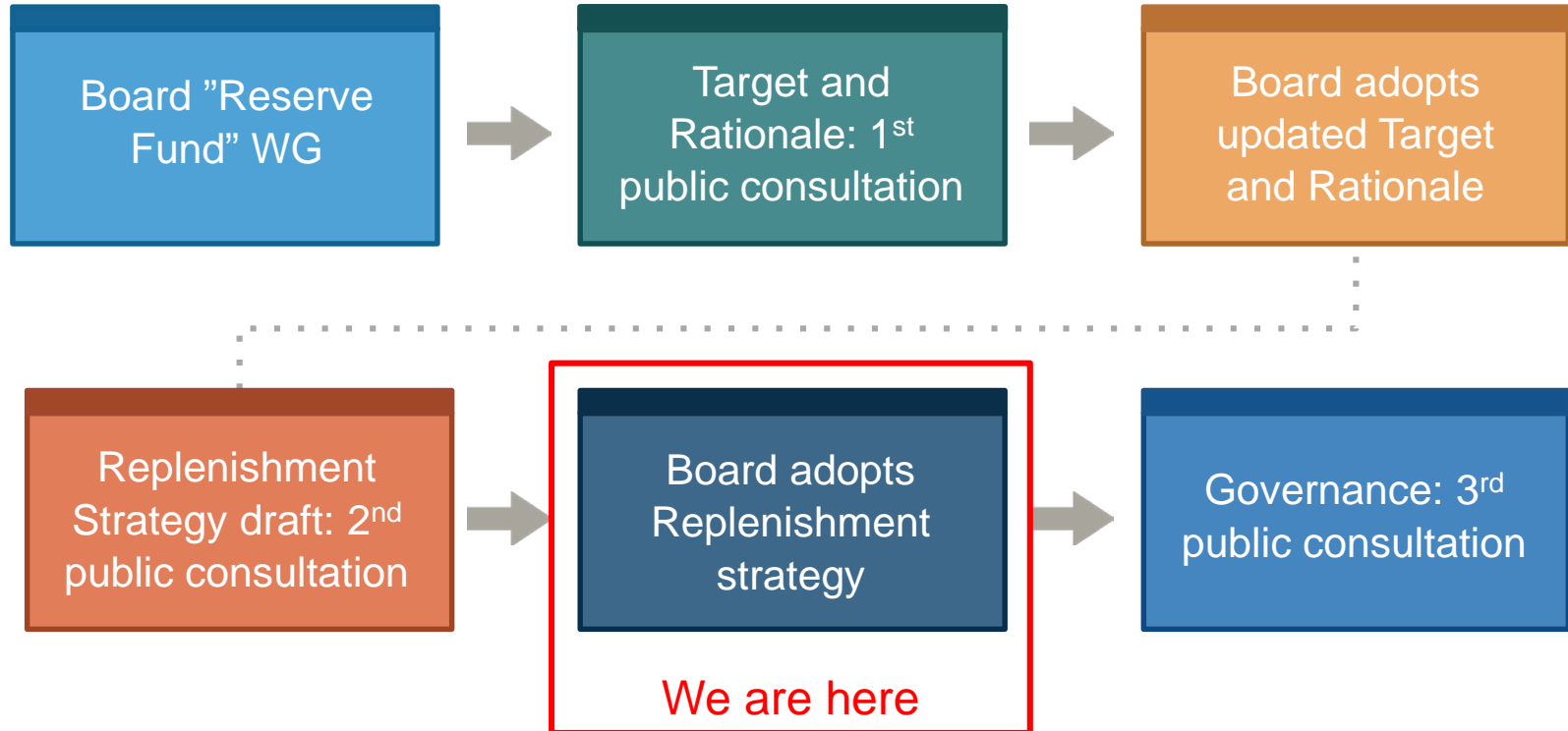


Next Steps and future opportunities for community participation

- ⦿ Sep-Nov 2018: Org & Board develop draft strategic plan
- ⦿ Nov-Dec 2018: Public Consultation on draft strategic plan
 - *Exact dates to be announced*
- ⦿ Jan-Feb 2019: Org & Board revise strategic plan.
 - *Additional community consultation if necessary*
- ⦿ Mar-May 2019: Board adopts strategic plan

Reserve Fund Replenishment

Reserve Fund Strategy: Recent History



Reserve Fund Replenishment Strategy

- ⦿ Following the 2nd public consultation, ICANN Org drafted a final proposed Replenishment Strategy
- ⦿ Strategy summary:
 1. A 5-year replenishment period starting from 1 July 2018.
 2. A minimum contribution from ICANN org operational excesses of US\$ 20 million over 5 years.
 3. A contribution from the Auction Proceeds should be made immediately for US\$ 36 million.
 4. A contribution from the new gTLD program remaining fees should be made immediately for US\$ 12 million.
- ⦿ Implementation:
 - ICANN org to contribute \$32m over 8 years
 - \$3m from FY18 excess transferred to Reserve Fund in October 2018 (following Board approval at ICANN63)
 - Transfer (following Board approval at ICANN63) of \$36m of auction proceeds into Reserve Fund.

Multiyear Budgeting Discussion

◎ History:

- During the IANA stewardship transition work on Planning/Budgeting (CWG Drafting Team “O”): suggestion to extend the budgeting working period from 1 to 2 years.
- Idea resurrected during budget discussions during ICANN61 (San Juan).

◎ Why a “2-year budget” process?

- Currently, process takes about 15 months to plan for 1 year (planning for FY20 started around April 2018 and expected to finish in June 2019).
- Despite taking 15 months, little time available for in-depth interaction with Community on “what ICANN should do”:
 - 2 webinars, 1 or 2 working sessions (4-6 hours total), and 1 public comment period (~50 days).

Multiyear Budget discussion

- **What** would a “2-year budget” process include?
 - A new phase focusing on “what ICANN should do” (ie Operating plan):



- More community interaction during each phase
- **What** would be planned for during a “2-year budget” process?
 - 2 Operating Plans and Budgets of 1 year each.
 - 1 update to the Five Year Strategic and Operating Plan: 2 years updated on a rolling basis, revising objectives/goals as necessary.

Multiyear Budget discussion

◉ Who would participate with what role?

RACI model	ICANN Org	Community	Board
Planning phase	R	C, I	A
Operating plan phase - PDP	C	R, I	A
Operating plan phase - Org	R	C, I	A
Budget phase	R	C, I	A
Adoption phase	R	C	A

Legend	
R	Responsible
A	Accountable
C	Consulted
I	Input

◉ Questions to address:

- Level of granularity of information
- Compliance with bylaws
- Timing of implementation
- Modalities for change

◉ Next step: develop a draft process to present the Board (12/18)

Q&A – General



Questions?

Part 1 Wrap Up/Next Steps

Agenda Item #6



Summary/Action Items



Short 10 Minute Break



Part 2 - Working Lunch and Discussion

ICANN Market Projections

Projection of ICANN Operational Funding

Mukesh Chulani
Global Domains Division
ICANN63 – Barcelona, Spain

25 October 2018



Budget Forecasting Approach

Budget Forecasting Approach (1 of 3)

- ⦿ Funding forecasting covers several categories of fees*:
 - Transaction Fees for Registries (per TLD) and Registrars
 - Fixed Fees for Registries (per TLD) and Registrar (Accreditation Fees)
 - Registrar Application Fees
- ⦿ Funding in each fee category is calculated separately.
- ⦿ Many factors are considered in the projection of funding in each category, including:
 - Historical data:
 - Volume of transactions, including new acquisition vs. renewals
 - Growth pattern of launched strings, in terms of Domains under Management (DUMs)
 - In-depth evaluation of both Legacy and New gTLDs
 - Detailed coverage of legacy gTLDs: transactions evaluated on historical trend line using quarterly billing seasonal trends
 - New gTLDs having minimum of 500K DUMs are tracked individually (12 at present, responsible for over half of total transactions and close to two-thirds of all billable transactions)

Budget Forecasting Approach (2 of 3)

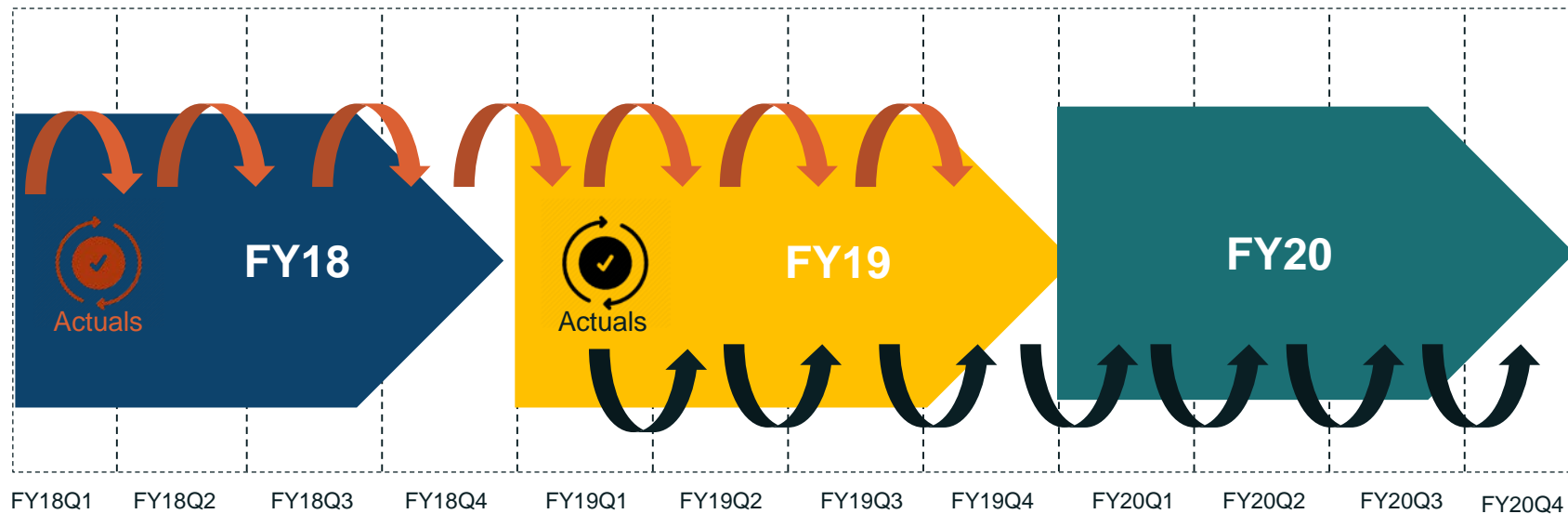
- ⦿ Many factors are considered in the projection of funding in each category, including:
 - Performance input from industry participants provided both directly and via investor statements/documents

 - Recent marketplace developments: actual or expected changes in supply-side and demand-side conditions
 - New launch, geographic market expansion, service provider consolidation, price promotions
Delegation dates estimated from contracting dates/deadlines and other available information
 - Increased uptake of IDN strings post-resolution of universal acceptance issues, greater market awareness of New gTLDs

- ⦿ Scenarios are prepared for Low, Medium and High estimates.
 - Our highest-confidence estimates, or “best estimates”, are used in the budget, with the inclusion of “low” and “high” estimates as guidance for potential variance.

Budget Forecasting Approach (3 of 3)

Funding forecasting Timing:

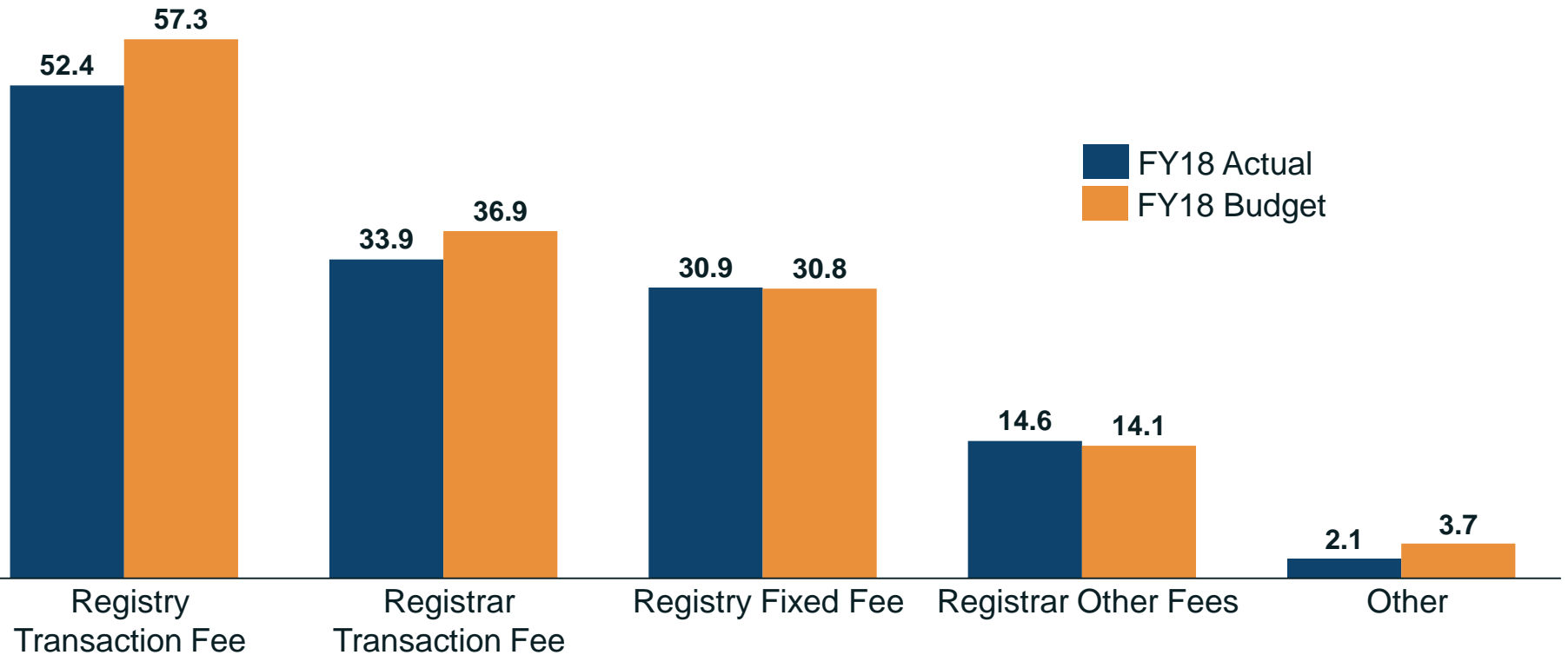


- ⦿ Under the current budget cycle, funding values for a fiscal year are developed 18+ months in advance.
- ⦿ ICANN continues reviewing its projections and updating these based on latest data and market developments on a quarterly basis.

FY18 Budget vs Actual

FY18 Budget versus Actual Funding

- FY2018 Actual at \$133.9 million
- 6% lower than FY18 budget of \$142.8 million
- Funding below target due to lower registration volumes



FY18 Budget vs. Actual Transactions & Contracted Parties

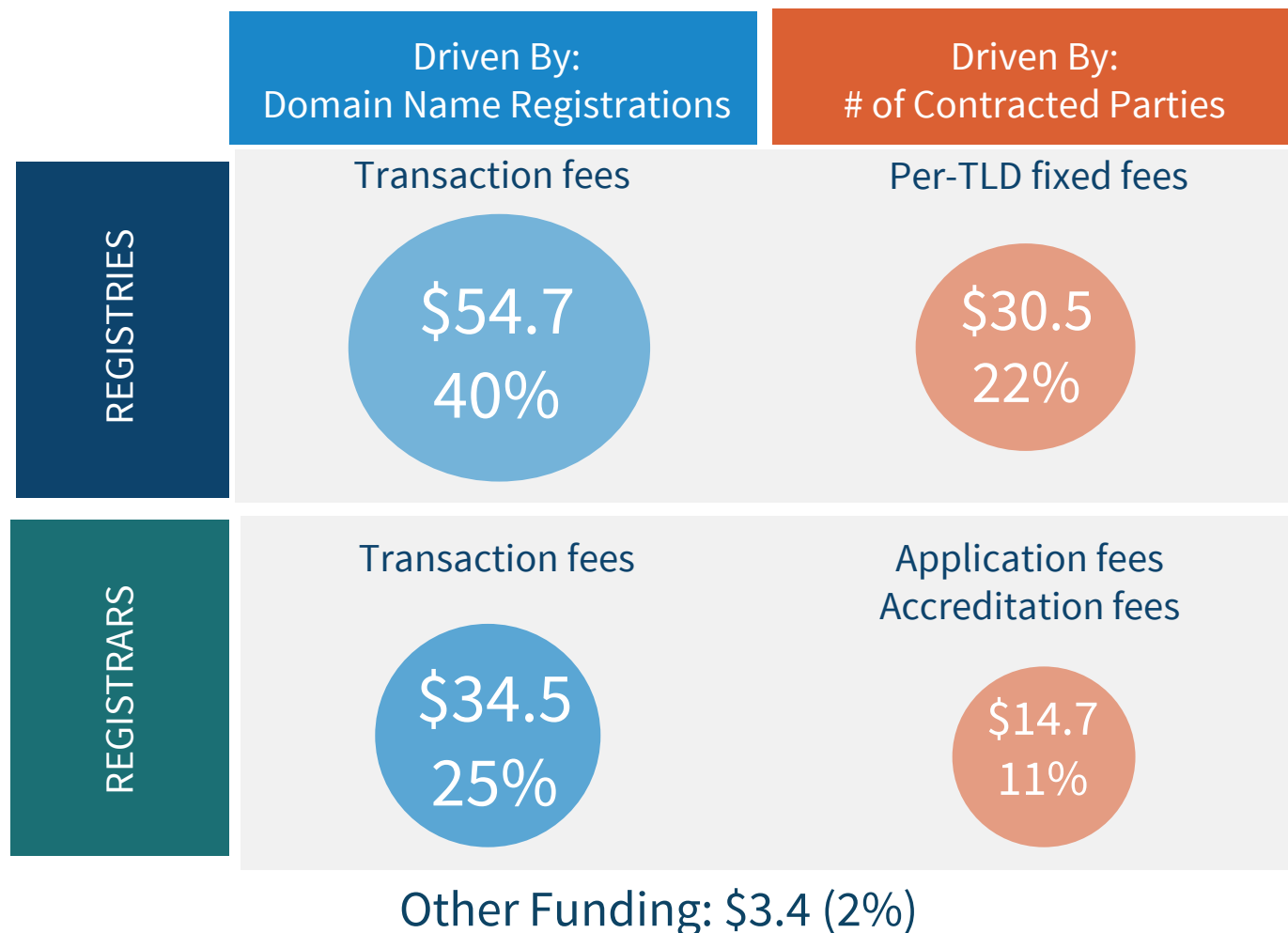
	FY18 Actual	FY18 Budget	Variance	FY17 Actual	FY16 Actual	FY15 Actual
# of Transactions (in Millions)	187.0	205.3	-18.3	183.1	184.9	158.5
Legacy gTLDs	164.5	163.6	0.9	160.9	161.5	151.2
New gTLDs – Total	22.6	41.7	-19.1	22.2	23.4	7.3
New gTLDs - Billable	19.5	35.4	-15.9	18.6	18.1	6.0
% of Billable New gTLDs vs. Total New gTLDs	86%	85%	-	84%	77%	82%
% of Total New gTLDs vs. Total	12%	20%	-	12%	13%	5%
% of Legacy vs. Total	88%	80%	-	88%	87%	95%

# of Contracted Parties (End of Year)	3,707	3,503	204	4,149	3,173	2,207
Legacy gTLDs	22	22	0	22	18	18
New gTLDs	1,218	1,240	-22	1,216	1,050	679
Registrars	2,467	2,241	226	2,911	2,105	1,510

FY19 Budget

ICANN Ops FY19 Funding

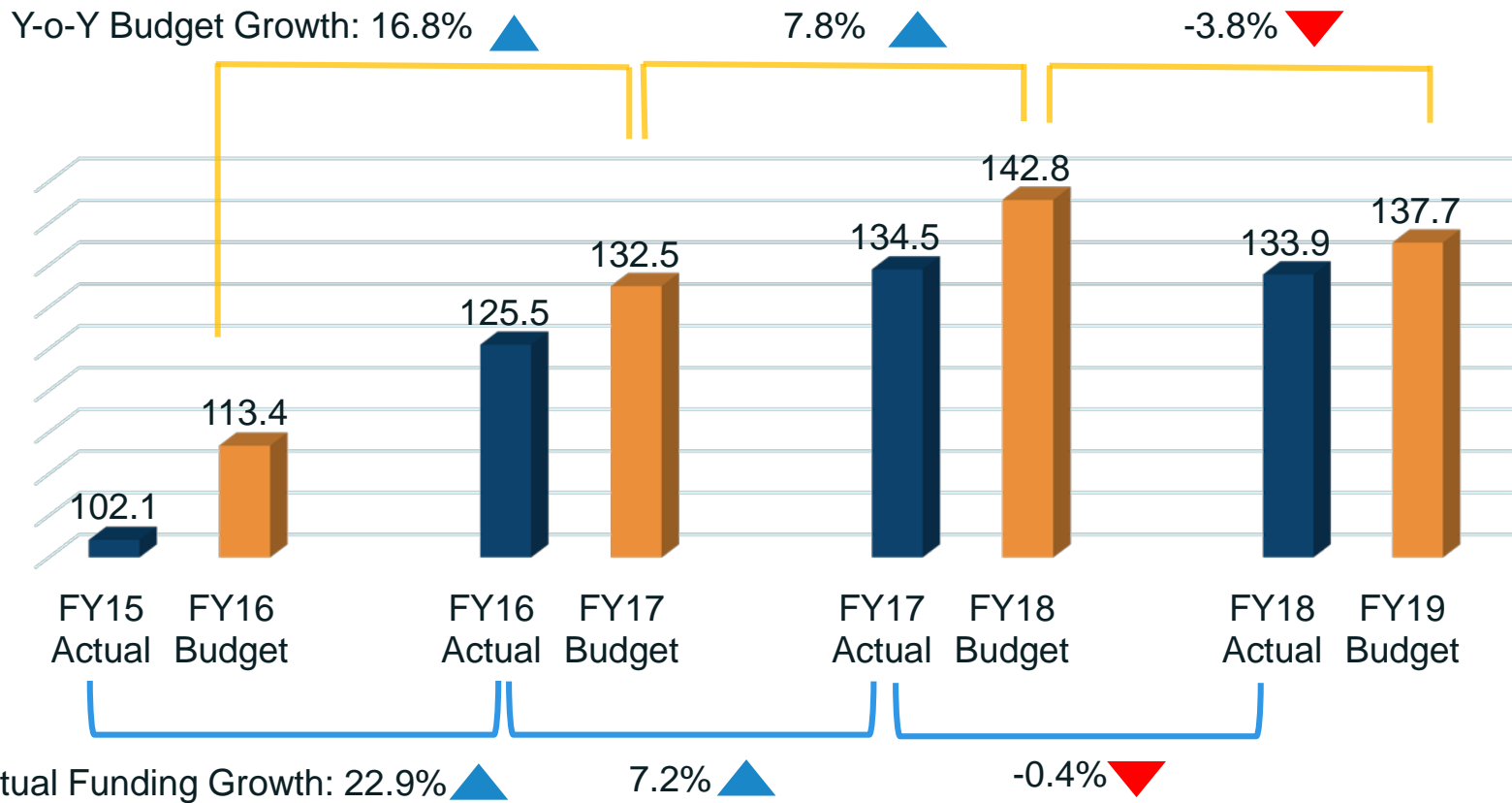
© FY19 Funding projected at \$137.7 million



- In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding of values.
 - 'Other Fees' made up of RIR & ccTLD contributions, meeting sponsorships, and other miscellaneous income

Historical Budget vs. Prior Year Actuals

- FY19 Budget represents 3.8% decrease over FY18 budget levels.
- Growth in funding reflects expectations of a maturing market



ICANN Ops Funding Key Assumptions (1 of 2)

Legacy gTLDs:

Transaction Based Fees

- ⦿ Assumes growth in transaction volume of 2.1% versus FY18 actuals.
 - ⦿ 167.9 million transactions in FY19 budget versus 164.5 million transactions in FY18 actuals
-

New gTLDs:

Fixed Fees

- ⦿ 1,221 TLDs assumed delegated by June 31, 2019

Transaction-based Fees

- ⦿ Assumed growth in transaction volume of 5.8% versus FY18 actuals.
- ⦿ 23.9 million transactions in FY19 budget versus 22.6 million transactions in FY18 actuals

ICANN Ops Funding Key Assumptions (2 of 2)

Registrar Accreditation:

Application Fees

- ⦿ The number of newly accredited registrars increases at a rate of 15 each quarter or 60 total for the fiscal year

Accreditation Fees

- ⦿ 2,277 accredited registrar base assumed by June 31, 2019

Per Registrar Variable Fee

- ⦿ Constant total of \$3.4 million

FY20 Funding Approach

FY20 Funding Approach and Assumptions

- Scenarios are prepared for Low, Medium and High estimates
- Assuming no change to fee schedule/structure in FY20

Funding type	Baseline scenario	High Scenario	Low Scenario
Registrar accreditation			
Application fees	Assumptions on new applicants using historical averages multiplied by the existing application fee.	TBD	TBD
Accreditation fees	# of new registrars to be added to existing base multiplied by the existing annual fee.	TBD	TBD
Per registrar var. fee	No change expected - Total at \$3.4m	TBD	TBD
Legacy TLDs			
Registrations volumes	Assumptions on historical growth average.	TBD	TBD
New TLDs			
New gTLDs Delegations	Expected delegation dates will be estimated for each TLD based on the current status of the applications	TBD	TBD
Registrations volumes	Assumptions on historical growth average	TBD	TBD

Thank You and Questions



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Part 2 Wrap Up/Next Steps

Agenda Item #4



Summary/Action Items



Draft PTI/IANA Operating Plan and Budget Public Comment
(Closes: 12 Nov 2018)



Draft ICANN Operating Plan and Budget Public Comment
(Closes: 8 Feb 2019)



Thank You and Questions

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