
HELSINKI – SOP Working Group
Monday, June 27, 2016 – 09:15 to 10:30 EEST
ICANN56 | Helsinki, Finland

[GIOVANNI SEPPIA]: We'll start in two minutes.

Good morning, ladies and gentlemen, and thank you for attending the ccNSO Strategy and Operating Plan Working Group meeting here at the ICANN 56 policy forum in Helsinki. We have circulated the agenda the [past week] of this meeting, but before I get into that, I would like a quick tour de table to introduce each other and making sure that those who are not familiar with each other, they know the names and affiliations.

I'd like to start from my left. Patrick?

PATRICK JONES: Patrick Jones with the ICANN global engagement team.

ALEKSANDAR POPOVIC: Aleksandar Popovic, .rs.

MICHAEL VASSILAKIS: Michael Vassilakis with .gr.

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JOKE BRAEKEN: Joke Braeken, ccNSO secretariat.

BECKY NASH: Becky Nash with the ICANN finance team.

GIOVANNI SEPPIA: Giovanni Seppia, .eu, EURid.

XAVIER CALVEZ: Xavier Calvez, CFO.

TARYN PRESLEY: Taryn Presley, ICANN staff, finance department.

DEBBIE MONAHAN: Debbie Monahan, .nz.

BART BOSWINKEL: Bart Boswinkel, ccNSO secretariat.

ALLAN MACGILLIVRAY: Allan MacGillivray, .ca, CIRA.

MATHIEU WEILL: Mathieu Weill, .fr, AFNIC.

STEPHEN DEERHAKE: Stephen Deerhake, .as, American Samoa.

SOULEYMANE OUMTANAGA: Souleymane Oumtanaga, .ci, [inaudible].

BARRACK OTIENO: Barrack Otieno, AfTLD, Africa Top Level Domains Organization.

UNIDENTIFIED MALE: [inaudible], regulator of Togo, ccTLD of Togo. Thank you.

GIOVANNI SEPPIA: Thank you, and good morning again. I have to record two apologies from [Wafa] and [Paul], who cannot be with us today and they send their regret for not being able to join the meeting in person or remotely this morning.

We have circulated this agenda, and I have liaised together with Bart, with Xavier and his team regarding the structure of this meeting. On the 25th of April this year, the ccNSO Strategy and Operating Plan Working Group has submitted its input to the ICANN Fiscal Year 17 Operating Plan and Budget.

We divided ourselves into sub-working groups as usual, and

each sub-working group produced the input on some specific parts of the Operating Plan and Budget. There was a preamble which was highlighting some recurring themes in the feedback that we provided, including – this is a recurring theme – the need to introduce more and more precise KPIs and also the need to include more timeframes for the different projects and different activities in the strategy plan and budget.

Also, there was a need to specify more in details certain figures for some of – this is shown now on the screen – the feedback that the Strategy and Operating Plan Working Group provided to ICANN and also, as I was saying, to get more details on certain figures.

I went through the ICANN response, which was uploaded recently on the ICANN site, to all the comments that were received by ICANN on the Fiscal Year 17 Operating Plan and Budget, and there are quite good responses to the different points we raised, while there are also some other points that were postponed. There's a commitment at ICANN's side to provide more details at a later stage or to incorporate the clarification in the final draft of the fiscal year Operating Plan and Budget, which is going to be approved by the Board.

I would like to say that I was very happy, and I have to acknowledge the work that has been done by the different

members of the working group. Thanks again for your commitment to provide your feedback on time. That allowed me to put everything together and submit it to ICANN.

At the same time, I would like also to acknowledge a quite good comment made by another stakeholder group. It's a comment regarding the [expenses] part of the plan. The other stakeholder working group made a very good comment regarding certain figures for which there is going to be an increase in the Fiscal Year 17 Operating Plan and Budget. They highlighted that they appreciate this increase because it shows how much ICANN is caring for certain new teams, certain new areas, including cyber security. It's positive from this stakeholder group to see the increase of certain figures.

I would like, before I leave the floor to Xavier, to invite our working group to also provide these kind of comments and be included. Whenever we see that there is an increase in figures and we believe that it's valuable to have an increase of investments at ICANN side on certain areas, we can stress it instead of always saying, "Why did you increase this figure instead of another?" or something like that, just to also have a positive approach and say openly that if we believe that some areas are worth to be having more investments, more resources, that could be a good point to stress in our input.

With that said, I'd like to leave the floor to Xavier, who has prepared a presentation about the input we submitted and the feedback to our input, which they recently published on the ICANN site. Thank you. Xavier?

XAVIER CALVEZ:

Thank you, Giovanni. Good morning, everyone. Before we go over our presentation, I want to acknowledge the fact that your group is one that, for us and across the community, as you know, everyone looks forward to hearing from. The public comment process on the Operating Plan and Budget is one that's very substantive. Your group has history, knowledge, expertise in looking at the management of organizations and it's concentrating an expertise that's actually unique in the community.

We look forward for your comments very much when the time comes for the end of the public comment period. We know that your colleagues in the community look forward to your comments, as well, and will take guidance from your comments. I simply want to acknowledge that your work in this working group is very important and beyond simply the value that you deliver directly to ICANN. It has value to the community. Not that I am saying anything you don't already know, but I simply want to emphasize that that's the case. I hope the participation in this

working group can continue to be as strong as it has been. Next slide, please.

We'll go over the comments. We have a short summary of the comments, just so that you see the magnitude of the comments and the number of comments that have been received. Then we'll go over the comments that the ccNSO provided, and we'll not necessarily go into detail of every one of them, but we'll be very happy to highlight any one of them that you think are of particular interest. If you would like that we stop on any of them to dive a bit into the answer, please feel free to raise your hand and then we'll do that.

We'll talk a little bit about an aspect of the budget that has recently been settled, and we'll close with that.

I would suggest that considering the size of the group, if you're okay with that, that people jump in as we go. Let's make it very interactive.

GIOVANNI SEPPIA: Especially, to shut you up. [inaudible]

XAVIER CALVEZ: Yes, exactly. That gives me a break, as well.

Next slide, please. Just to give you a quick overview of what the public comment process has been this year in the public comment period, 12 different organizations provided about 150 comments, a bit more. This is the largest amount of comments that we have received in the past at least five years, which we consider a success. That demonstrates an increase in interest and participation. The planning process and the budget process for ICANN is a pillar of the multistakeholder model, and the participation in this process is key.

We think this is very good, though at the same time, we know the investment it requires from community members to be able to comment on the budget. It's very massive, deep, and wide information. It's challenging to grasp, to understand unless you are an expert. In this group, I think you have that expertise, but in many other parts of the organization, that expertise does not exist. It's very complicated to enter into this process and be able to comment, so we need to find ways to lower the bar of access to being able to understand and participate in the planning process in the future.

You see here the themes. I won't go necessarily over them. I'll simply highlight the largest ones in terms of number of comments. Financial management is a bit of a bucket relative to the comments – and we've received 24 comments on that – on the total revenue, the total expenses, on the governance relative

to the finance for the organization. The process has also been the subject of a large number of comments, the 23, and not surprisingly, the IANA stewardship transition has also been the subject a large number of comments.

Not surprisingly to this group, the KPI definition and structure is also an area that has received a lot of interest across the community, not only from this group. We're thankful for that because this is an area that's relatively new in our operating plan. It really has kicked off last August with the beta version of the dashboard. Now we are in version one since February. We have another version two that is planned to kick in, in October, and each of those versions try to include improvements in the KPIs, in their accuracy, in their relevance, in their definition.

Those versions result from the input that we collect through these various processes, as well on a less formal basis. Keep it coming. We need this input on the KPIs and the dashboard so that we can continue improving that aspect of the organization and the plan.

Any questions on this overview? Okay, so let's dive in. Next, please.

We have listed on the next few slides the comments that this group has provided on behalf of the ccNSO. Can you go back a [second]? Thank you. Next. I would like to speak to one of the

comments, which is the one at the bottom on this slide relative to the consistency or lack of consistency on the operating plan and the structure of the operating plan. I want to remind everyone that our operating plan is based upon the management system that each manager at ICANN uses on a daily basis to manage projects. Those projects are aggregated in portfolios. The portfolios then are aggregated into goals and then objectives.

The comment is one that I have myself, that our team has, as well. Because it is a tool that is used every day across the entire organization, it is subject to the expertise and structure of each of the managers of ICANN. The lack of consistency that is pointed out here is actually the reflection of the different levels of either expertise or different type of usage of the management system that you can see across all the departments of ICANN.

For example, the policy department in which Bart is has a way of using the number of projects that's relatively detailed and that isolates each of the policy development processes on an individual basis. For the finance department that I head, we have a very limited number of projects that capture the general day-to-day activities and just one or two or three projects. We have, across two departments, a different way of using our management system, and that translates from an external perspective looking at the operating plan, into discrepancies in

the structure and depth sometimes of the operating plan that comes out.

While it is, in our views, logical that the way each department that is different uses differently the management system and therefore the operating plan, we also recognize that it comes across as inconsistency, and sometimes it is. This is something we internally need to work on, is to be able to educate the managers in the organization and try to guide these managers to using in as consistent fashion as possible the management system of the organization, while using it in a fashion that supports adequately their operations that can be very different. This is something we need to put emphasis on.

UNIDENTIFIED MALE:

Xavier, thank you for clarifying this. If I remember correctly somewhere on the floor – No, it's okay. I'll do that later. Somewhere, there is written in the feedback of the comments that there is a process to develop internal guidelines to educate the management how to populate with details and content the plan.

XAVIER CALVEZ:

That's correct. That's one of the tools that we're trying to use to improve that consistency and that level of detail. I would also

say that the KPIs help us structure better the projects and portfolios because when we formulate a KPI that measures either the effort or the outcome or ideally both of the activity, then it's also easier to structure adequately the activity.

We have seen that the use of KPIs was making the structuring of the projects within the operating plan more adequate and more relevant. That's been something that's come across notably from Patrick's team, the GSE team, the Global Stakeholder Engagement team who has done a lot of work over the past months on formulating KPIs. That work translates into a structure of the projects and the portfolios that now makes more sense and is more transparently demonstrating the activities of the organization and the outcome of those activities. There's a quality improvement that results from introducing the KPIs. Not that any of you are surprised with that because that's why you have made those comments over the years, but we now see the benefits of that.

It's a challenging exercise to do, but this is one that we need to continue doing all the time. Unless there's other questions, I'll move on.

UNIDENTIFIED MALE: Are the guidelines being produced?

XAVIER CALVEZ: Yes. We have guidelines on how to structure projects, how to describe it. That also provides guidance on creating milestones for the projects and linking obviously those milestones with the five year operating plan if the project carries over several years. That helps. We are trying to roll out those guidelines across the organization. We need to find better ways to continuously support the managers through the organization to apply those guidelines [well]. We need to put in place that quality control and that guidance to ensure that those guidelines are understood, applied, and effective. That's going to be the next step for us.

UNIDENTIFIED MALE: And the next step from a time perspective is when?

XAVIER CALVEZ: Is going to be defined through this planning cycle for FY18 that we're going to start now because we are now going to work over the next few weeks on how we are going to ask the budget owners to structure their projects, to structure their operating plan for the planning of FY18, which will start in the next few weeks.

UNIDENTIFIED FEMALE: Would you find it useful, then, as part of that, Xavier, if we gave you comments? If I'd go to your dashboard, some of the progress reports are really clear and easy. You can tune in and you can get a picture of where that manager sees the project is at against the KPI. Then others have got a number, and they might have a [cutted line], but I've really got no idea as to what that actually means when they say "things are progressing."

I've got two examples I've just looked at in the last five minutes. I'm thinking, is it useful if we say, "These ones are fairly useful and that one's not so much?"

XAVIER CALVEZ: That definitely would be, so don't hesitate if you come across those either inconsistencies or deficiencies of the KPIs to demonstrate the activity. Absolutely, please do. That would be very useful. Again, I find that the KPIs and formulating them correctly has helped us make the plan a lot more structured and more transparently demonstrating the activities that occur and their outcomes. I think that can be very helpful. If you come across that, please do provide us that feedback. That would be really helpful. Next?

UNIDENTIFIED MALE: I'm not sure whether that question will get an answer later, but I see you mentioned of the EFQM program within ICANN. I'd like to know what's the status about it. Are you doing external assessments? Are you planning external assessment, and will you be in a position – and basically when – to share some insights about the feedback you're receiving from that?

XAVIER CALVEZ: Thank you for that question. I'll provide a more substantive question. I need to check the timeline with Susanna Bennett, the COO of ICANN, who oversees the implementation of that program. We are rolling out the program on a department by department basis. That has continued over the past few months. From memory, the external assessment that we're planning will be during FY18 if I remember correctly, which will be basically after three years of implementation and rollout of the plan. I know you're familiar with it, and I think that's a relatively consistent timeframe with the methodology of implementation that EFQM suggests, depending on of course of the size of the organization and the choices made on the speed of implementation, as well.

We have tried to be progressive in that rollout. As you all know, there's a lot going on in the organization, and it was difficult to stop a number of other projects in order to make more progress

on this one. We have tried to continue a steady pace of implementation so that we keep the momentum, while we haven't made it a stop everything and do that type of approach.

I will confirm the timing of that external assessment, and I will retrieve the roadmap that we have for the project and I will share that.

UNIDENTIFIED MALE:

I have a KPI suggestion, very concrete. It is map out a number of departments of ICANN, indicate the status of deployment across these departments as part of your KPIs. This is ongoing in seven out of ten or whatever. We consider it as completed, and so on. That would be a nice way to see how that program is making progress.

XAVIER CALVEZ:

I think it's a very good idea, demonstrating the progress against that. It's an operational excellence model, as you know. It's also all-encompassing across the organization's operational excellence progress. Thank you for that suggestion. We'll make a note of it.

Next, please. We'll pass that one. It's some percentages. Giovanni, since you've gone across all of the comments, as well,

if there are any that you think we should stop on as well, please feel free.

GIOVANNI SEPPIA: There are a couple of indexes. One is the domain health index, and if I remember correctly, there is a wish from ICANN to get more engaged with this working group and the entire ccNSO community to get more elements to improve or refine this index. There is a wish that is expressed in the feedback we've received.

XAVIER CALVEZ: Thank you. This is an ongoing work that has been taken on by Cyrus Namazi and his team in the DNS Industry Services to try to define an index that helps measure the progresses of the area of responsibility that he has. This has been a result of an assessment that it was not easy to define individual KPIs that help cover the entire scope. Therefore, that index was believed to be measuring the environment that then this group actually impacts.

It's a challenging exercise, but the value of it is actually to be able to bring together the participants of which the ccNSO is of the domain name industry to be able to define the parameters that can enter into that index and make it as relevant as possible to the ICANN environment and, therefore, be able to then

establish a calculation of that index and then establish a baseline, of course, and then measure it over time. Of course, when you do that, as you know, you want to be able to have a certain amount of stability in the definition of that index because evolution over time with an index that keeps changing is not helpful. Defining it well at the outset is something very important.

What I need to check with Cyrus is the timeframe for the completion of the first draft of that index because I don't remember. That's something I can also follow up with him. Here, we're saying the development of that index continues, but we don't have a timeline for completion of a first draft unless I'm mistaken.

GIOVANNI SEPPIA:

If I can just say that I believe this working group, as well as all the ccNSO community – if I can speak on behalf of the ccNSO – we are always available to provide any help that you may need to refine this index. If I remember correctly, the discussion goes back to the time when we were presented some figures about the domain name growth projections around the globe. We found them quite inconsistent against the projections we were having at different regional and continental levels. Again, we remain available to help you. Mathieu?

MATHIEU WEILL: Under the registry stakeholder group list, which I happen to follow, there's a lot of discussions. There have been public comments about draft metrics for the domain health index. Is that the same index we're talking about?

XAVIER CALVEZ: I believe so, yeah.

MATHIEU WEILL: So probably maybe in a future meeting, we can invite Cyrus or the people working on this. I know they've been doing workshops with the Registry Stakeholder Group in the GNSO, but probably it could be worthwhile doing this within the ccNSO, as well.

XAVIER CALVEZ: I think that would be great.

GIOVANNI SEPPIA: In Marrakech, there was this idea that was launched in this working group to, as Xavier and his team, they are collecting input from the different ICANN departments. Some of the comments that we have submitted over the years, they're referring not really to financial figures but also to the content.

That is a content that is not up to Xavier and his team to produce but is assembled by Xavier to have some extra clarification on different areas of the ICANN strategy.

In Marrakech, we launched the idea to have a broader and open discussion that is going to take place for the first time tomorrow afternoon. There's going to be a session with a couple of people from ICANN different departments who are going to speak more in details about certain areas about which we submitted comments over the years.

One of them is the [hub] strategy, so the office strategy of ICANN, and the other one is HR, so how ICANN is dealing with HR in terms of evaluation, in terms of hiring processes. Those are just two of the areas where we had quite a lot of comments over the years. For the first time tomorrow, there's going to be this session tomorrow afternoon at the end of the ccNSO meeting. It's almost at the end of the ccNSO first day meeting. There is this session with some of the people behind those parts of the strategy.

Again, it would be probably useful in the future to invite Cyrus to speak about the domain health index and see how it can contribute.

BART BOSWINKEL: There are different ways of doing it, but I think it could be a nice session in Hyderabad, as well. [Seek] a combined session with the Registry Stakeholders Group to go over the domain name health index, and maybe even at the ccNSO meeting itself, so the [meetings] day. Not just limit it to this group. It's interesting for probably the broader community.

XAVIER CALVEZ: Just a compliment to what Giovanni just said about the session tomorrow. The HR aspect of this discussion will be led by Susanna Bennett, the COO of ICANN, and the engagement and [hub] and outreach topics will be presented by Sally Costerton, head of Global Stakeholder Engagement. Being the people, as Giovanni indicated, that basically manage those functions at ICANN and therefore with which a substantive discussion can happen on understanding how each area is managed in interacting with each of them, of course. Hopefully, you will all be able to participate tomorrow afternoon to this first exercise.

Relative to the health index and so on, it sounds to me that Hyderabad is good timing, as well, because if you remember in our planning process, it will likely precede the definition of the revenue assumptions for FY18. Cyrus's team is the one who produces those revenue assumptions on the basis of market trends as well as the specific registry assumptions for ICANN's

revenue. This, to me, seems both a good timing and a good combination of topics at the same time. We'll follow up on that together, Bart, with Cyrus.

Any specific questions or comments on the comments that are here on the screen? We just showed the comment relative to the industry index, and I see that the response that Cyrus offered is that there's a better version of the index expected by the end of FY16, which is in five days from now. We'll follow up with him.

There are other industries, as well, that are being developed across the organization. I think, Patrick, there's one in GSE as well, right? It's a similar approach to creating an index that can be used as a reference. Of course, the creation of that type of indices is a relatively complex and broad, for the right reasons. It also takes a lot of effort to aggregate the data, which is a lot of manual effort to go and look for it, and then aggregate it in a structured fashion. But it's a very healthy exercise to help us build these metrics.

Patrick will be part of the group tomorrow that will present the GSE strategy. Patrick?

PATRICK JONES: In tomorrow's session, we'll talk about our approach to engagement and how we've been improving our KPIs and the

data that we do collect on our engagement activities. We'll also include with that the approach to the hub and engagement office strategy. We'll provide some explanation that will complement the response to the public comments that was provided.

XAVIER CALVEZ:

Thank you very much. Next, please. We're not going in order is what you're telling me. We're already on slide 27? Let's scroll through. How long do we have?

GIOVANNI SEPPIA:

It's just a matter now of timing. I'm looking at the working group members. Is there any specific area where you'd like to hear more from Xavier? I mentioned the indexes that are referred to in the feedback. It was one point in the agenda and is also mentioned in our input is how ICANN is now managing the transition.

I'm in this finance working group list, and I've seen there are some e-mail exchanges regarding the reserve fund and some comments regarding the reserve fund which is going to be used. There are also a couple of comments not of the ccNSO SOP submitted to the Fiscal Year Operating Plan and Budget relating

to the contingency fund. ICANN doesn't have a true contingency fund, so it operates differently.

If Xavier can elaborate a bit more about the reserve fund and the contingency fund. Again, if anybody else from the working group has any area of what we have already submitted or any other area you'd like to hear more from Xavier, I think this is the moment.

XAVIER CALVEZ:

Let me start, and then we'll gather questions as they come. There's been a number of discussions going on relative to the reserve fund of ICANN and in connection with the IANA stewardship transition project's expenses. To try to share the same information with everyone in this group, the IANA stewardship transition project has been going on and we've been tracking it from a cost standpoint since July 2014, the beginning of the fiscal year 15 of ICANN, so FY15, FY16. That's now closing. That's two years of intense activities that have been more intense over the past year and a half.

We have, as an organization – when I say organization, I mean the entire community – we have spent approximately \$28 million on this project over those two years, FY15 and FY16. The funding of those expenses was determined to be needed to come from the reserve fund, simply because we didn't have the

money in our annual operating revenue to be able to fund those expenses from it. It has come from our reserve fund. The reserve fund at the beginning of this period was \$88 million. It's now going to be at \$60 million once we take out the expenses. There's now the expenses for FY17 coming up, which we are estimating to be short of \$9 million. So \$60 million at the end of FY16 in a few days, less \$9 million for FY17. That will bring the reserve fund at about \$51 million or so, ignoring investment gains on the fund.

\$51 million, to put this in relation to where do we want this reserve fund to be, which is currently set at a 12 months of operating expenses for the organization as the adequate target amount for that fund. If we look at the FY17 budget, 12 months of operating expenses is a \$132 million. So \$51 million, future level, compared to \$132 million of target. There's obviously a problem. This is a concerning problem, not just to me as CFO, but to the entire community, of course, including the Board. There's a lot of work that is going on to, first of all, manage the expenses of the project as tightly as possible as well as finding solutions to replenish the reserve fund, basically.

The Board has, separately, carried out a project of reanalyzing the rationale for the reserve fund and also the target level and the governance of the reserve fund of which, of course, including how we replenish this fund?

A number of mechanisms have been mentioned. Of course, for example, having an excess generated every year to put money away, just like a normal savings account. But considering the gap of \$51 to \$132 million, using just those numbers, which is about \$82 million, it's not by putting away \$2 million or \$3 million every year that we're get anywhere, or not anywhere fast.

That's the problem that is in front of us that the Board and notably the finance committee, of course, is looking very much into. The Board has even more than half of its members involved in the working group that works on the reserve fund target definition, and we're expecting this to come out in the next few weeks. It's coming to an end, and it's timely with the challenge that we have of having this reserve fund being depleted.

We will have very interesting conversations in the next few weeks and months on how do we replenish this reserve fund. I want to emphasize that as part of the FY17 budget, the envelope of nearly \$9 million that I mentioned has been included in the budget and is conditional to the funding has been indicated to be from the reserve fund as well, but as a temporary measure. The Board has determined that the funding of that \$9 million would come out of the reserve fund, but until we have determined a way to replenish the reserve fund and defined a possibly alternative source of funding for these expenses.

We will initiate over the next few weeks a process to get input from the community as to how do we want these expenses to be funded because we can't continue to deplete our reserves. We need to find ways to do that. How long are those expenses going to last is obviously one big question. How do we fund those expenses knowing that the reserve fund of ICANN is not there to fund that type of projects but is there as a safety reserve to face unknown, unexpected, unavoidable expenses that could occur? That reserve is actually a fundamental element of the stability of the organization to carry out its mission. Being in the situation that we're in is a very downgraded situation from a stability standpoint and a very heightened risk situation. This is of very short term concern.

GIOVANNI SEPPIA:

Stephen?

STEPHEN DEERHAKE:

From your perspective as CFO, how much time do you think we have as an organization to sort out this reserve question and how to get it stabilized and built back up? It looks to me like we're out on very thin ice in late spring. All it would take is one adverse legal judgment to wipe out the reserve that we've got, for example.

XAVIER CALVEZ:

Thank you, Stephen, for that question. It's concerning, for sure. There's no question. I think that at \$50 or so million, we can face a number of risks, but of course, the issue is always the same. We don't know what we don't know. To your point, a significant, impactful litigation could make a big dent in that \$51 million. Every event that would occur then leaves us very exposed to the next one. Cyber security is something that we pay a lot of attention to, but that takes a lot of money to also fight or to enhance. We know how challenging cyber security is these days, and it's a race against the bad guys. It never stops. That's a concern, and that would be something that could trigger relatively easily the need to use the reserve fund.

I think it's urgent, not necessarily because we are exposed on a very short term basis, but it's urgent because we don't have an alternative funding for anything. This is the last resort funding for ICANN. If we don't have that, we're completely exposed to the next event that creates a problem. I think it's urgent because, first of all, we keep depleting, and we are depleting without having a mechanism to replenish. You could argue that when you don't have a mechanism to replenish, you don't deplete.

We don't have a choice. We need to go through the transition. It's a fundamentally important project, and it costs money. We don't have a choice, but that makes even more so important and urgent to define the processes to replenish the reserve. To me, the urgency is more strategic and structural than the result of immediate risks in the short term. I don't know if that helps you answering your question. We have Roelof.

GIOVANNI SEPPIA: Roelof just came in the right moment. It's like the shark attack. Can I just say, just to Xavier? I don't know if this exercise was already conducted. We're talking about \$8.8 million.

XAVIER CALVEZ: For [FY17].

GIOVANNI SEPPIA: Would it have been more prudent for ICANN Board to consider if and how to optimize current operational costs to see if there is room to find this \$8.8 million, instead of going immediately to the reserve fund and say, "They are available. There's a reserve fund of about \$50 million still there. We'll take them from the reserve fund," instead of saying, "Let's look into the current operational activities and see if we can save something?" I'm not saying all of them, but as a message to the community, an effort

to say, “Let’s try to optimize things so that [half of] that, we take it from an optimization from current cost and the rest we take it from the fund,” instead of saying, “We take everything from the fund.”

XAVIER CALVEZ:

Thank you. It is, and it has. With the BFC and the Board, with we have looked at what are our possible options. In FY16, we have a number of initiatives whose funding was to be from the reserve fund. In addition to the USG, the IANA stewardship transition, there are six initiatives. In FY16, we won’t have a lot of time to talk about that, but we will generate an excess versus the budget. Obviously, this excess will help mitigate the expenses of the transition.

The budget of FY17 has not been structured to absorb any fraction of the IANA stewardship transition expenses, but it has been structured, as I’m sure you have seen, to absorb all the other initiatives costs. As opposed to FY16 where we have six projects funded by the reserve fund, in FY17, we’ll have only one. It’s a significant one, but we’ve already gone through that step of absorbing into the operations initiatives costs. It’s not like it’s not happening. It’s happening for the other projects versus and not this one.

This is one of the elements for which the BFC and the Board have asked that basically the funding by the reserve fund is a temporary measure. As a community in the next few weeks, we will need to determine whether maybe we want to say, “No. No reserve fund. We’re going to cut costs.” Cutting costs will mean cutting activities, so what do we stop to do together so that we integrate the funding of these expenses into the operational budget? That’s an alternative that should be considered.

I think this is a completely reasonable analysis and approach. I’m not saying this will necessarily be the outcome, but as stewards of the organization, this is what we should be doing.

GIOVANNI SEPPIA: Thank you. Roelof?

ROELOF MEIJER: Thank you, Giovanni. Xavier, just to make sure that I understand the actual exposure, you're talking about the reserve fund, but there are other funds that ICANN has that have been earmarked for other purposes. There is a surplus from the new gTLD exercise, I think, which is somewhere. I’m not trying to diminish the sense of urgency or suggesting that those funds can easily be used for that, but if there is a huge disaster, the fund is replenished. If I’m well informed, then there are two other

sources where temporarily, funds can be taken from. One is the new gTLD surplus, and the other one is gTLD auction revenues, right? That is cash that is available for ICANN if that is necessary, isn't it?

XAVIER CALVEZ: Thank you. We are happy that you bring up this topic, which is the beginning of a really interesting conversation to be had.

ROELOF MEIJER: And that was without a briefing.

XAVIER CALVEZ: But we're among friends.

UNIDENTIFIED MALE: [Can I] close the door?

XAVIER CALVEZ: Yeah, I think it's time to close the door. First, I just want to requalify one thing that you said. The new gTLD program, as you know, is self-funded through the application fees. There are expenses that have been incurred to the extent of approximately \$250 million. The program is not finished. It continues. It's of course, in terms of volume, dying down with the remaining

applications. There's about 40 or 50 remaining applications, but there's also risks associated with that program.

ROELOF MEIJER: Sorry to interrupt, Xavier. My suggestion was not to go into that discussion if that will be a rightful move or not. I want to steer far away from that. I'm sure it was meant as a yes or no question. Maybe I should rephrase it.

Am I correct to understand that on the bank accounts that ICANN manages, there are funds which are earmarked for other purposes and should continue to be earmarked for other purposes, but that ICANN has access to if some kind of disaster occurs? The complete reserve fund is replenished. The current banking account is back on zero, and now you have to do something, either go to the bank and borrow or use other funds that you have earmarked for other things.

[XAVIER CALVEZ]: [You can't just] ask the question without me [adding it in].

ROELOF MEIJER: There's always a possibility of answering yes or no.

XAVIER CALVEZ: I will provide my answer, and I'm not an engineer.

ROELOF MEIJER: I'll accept the third option: I don't know.

XAVIER CALVEZ: We don't yet know if there will be a surplus for the new gTLD program, but to the question, do we have cash on the bank accounts today, we can show you exactly how much there is. It's very easy to do. There is remaining funds for the new gTLD program today of approximately \$150 million not yet spent, though with expected expenses in the future. There's \$101 million of auctions proceeds on the bank accounts of the organization. Those two funds are funds, to your point, that is earmarked, but that are cash owned by the organization. If there would be an extraordinary set of circumstances that in the very short term make us have need for more than \$80 million of cash, which is the combination of the reserve fund and the operating fund, then we would more likely than not dip into those funds on a very temporary basis.

Yes, there is cash available on the bank accounts of the organization.

ROELOF MEIJER: And quickly counted, it's about \$300 million altogether.

XAVIER CALVEZ: A bit more. \$340 million.

ROELOF MEIJER: So just to make sure that we know how exposed ICANN is.

XAVIER CALVEZ: Thank you.

GIOVANNI SEPPIA: Thank you. I have Allan and then Mathieu and then Barrack.

ALLAN MACGILLIVRAY: Thank you, Giovanni. I'd like to ask Xavier a related question. You indicated the Board has commenced a process for looking at options to replenish the reserve fund. I thought that's what you indicated already. It's a premise to my question.

XAVIER CALVEZ: Let me precise it, then. The Board has initiated, outside of the transition nearly two years ago, a process to review the target level of the reserve fund. What should it be? It's therefore worked on establishing a rationale and an objective for that reserve fund, so a target level and a governance mechanism, which includes replenishment. What do you do when you're

short? What do you do when you've arrived at it? And so on. A policy, basically, for that purpose.

Obviously, when you get to that point and you define a target level that's above the current balance, then you need to look at replenishment, as well. Though the replenishment is an ongoing current discussion, it's not yet formulated solutions. We believe this is something that needs to be done with the community, as well.

ALLAN MACGILLIVRAY: I'd like just to put in context there will have to be a process for looking at options by the Board to replenish the reserve fund. There's also a process ongoing with respect to the disbursement of the auction proceeds. I'm sure making this linkage will not be a surprise to you. How do those two processes line up in terms of decision making? That's my question. I certainly wouldn't want to see one process end prematurely, even though that's a pejorative term. I think there has to be a recognition in terms of the timing those two processes. We wouldn't want to see, for example, some decisions on the auction proceeds taken in advance of potentially some very difficult decisions on the replenishment of the reserve. Maybe there might be some value in aligning the decision making so all options are examined at the same time. Thank you.

XAVIER CALVEZ:

Thank you. My very insightful prediction is that we will be done with the reserve fund governance before we will be done with knowing how the auction fund proceeds are going to be spent. They are not lining up. That's a challenge. I'll come to your question, Debbie. It's a challenge in the exercise of looking at replenishment options that if some would consider that the auction proceeds are a source of possible replenishment of the reserve fund, those having those ideas would need to find ways to provide those ideas as an element in contribution to the working group that works on auction proceeds disbursements. I hope that helps answering that question.

ALLAN MACGILLIVRAY:

Just a small point. It's not so much the source of funds, but they have to appreciate the consequences of that. In other words, if ICANN were to say, "We have to cut all travel funding for the AC community in order to replenish. That's the only option," I think that decision would have to be taken into account if someone's looking at the disbursement of the auction proceeds.

I can see initially people saying, "No, don't touch them. They're meant for something else," so I'm encouraging the Board to put those options forward so that we can have a broader discussion

because obviously we're facing some very difficult choices.
Thank you.

XAVIER CALVEZ: I'll come back to that, but there's I think Mathieu and Debbie.

MATHIEU WEILL: Following up because then I have a comment and a suggestion, but it's just a suggestion. I don't see how this discussion on the reserve fund targets and ways of refurbishing whatever can be held outside of the strategic plan discussions. This is where it belongs. It needs to be in this decision making process, and it is central to the strategy of ICANN that it stays a financially stable organization. That's where it belongs.

There's also an option, which I hope is being considered and I'm bringing it to the table. You don't have to react about it, but if you are aiming at one year expenses as a target, one way of replenishing is cutting costs. I hope that the one-time projects, the ones that are not going to be recurring within ICANN but are related to extraordinary circumstances – I think you know which projects I'm referring to –

UNIDENTIFIED MALE: Thank you, Mathieu. Thank you. Thank you.

MATHIEU WEILL: – are not integrated into the target because the associated expenses are designed to go away in the future, taking into account the extra expenses recurring.

Finally, this is more of a message to the CCs around the table. I want to stress that there is currently in front of the council a proposal about the draft budget for Work Stream 2 on the accountability track, which is very significant. It's roughly \$8 million. I think it would be good if the ccNSO would have a discussion around it at some point because it is not just pure rubber stamping. It needs to be discussed about the value for money around this.

That's it.

GIOVANNI SEPPIA: Thank you, Mathieu. There is also Barrack and then Debbie. Barrack, please.

BARRACK OTIENO: Mine is just a suggestion. I was thinking, given the extraordinary circumstances that have been brought by the transition, I don't see why the new gTLD auction proceeds cannot be used for the reserve fund. When I look at the draft paper that was proposed,

it talks of such funds as reserves. In the absence of us putting them in the reserve fund that we're talking about, it will mean that we have two reserves, which puts us in another quagmire. Just a proposal.

DEBBIE MONAHAN:

My question comes down to, you said before, Xavier, that you're looking at reviewing the reserves policy. That, to me, is a key step because if you turn around and actually say, "We only need six months' operating plus the key expenses or contracts that we have to pay out," before you set your criteria to a [wind down] in the worst situation or what you truly need, the degree of replenishment could be quite different. If you, for example, move to six months and you only need to find \$10 million, which is quite different to actually having to find them more.

The timetable for that review of the reserves, and how is the community potentially going to be involved in that discussion?

XAVIER CALVEZ:

Thank you. If you don't mind, I'll start back over from the commenters. Allan was pointing out the timing of the processes relative to auction proceeds disbursements and the reserve fund. Definitely, we will need to consider, and I think it's natural to consider and to have input into the auction proceeds process

to introduce the possibility that this is one of the purposes that could be used for those auction funds proceeds.

That's also Barrack's point. I'm hoping that this input can come across from you guys in the future, at the time appropriate when those discussions will happen. One of my objectives is to make sure that they do happen.

I completely agree with Mathieu that the evaluation of the reserve fund and its target and its level should be done in the perspective of the strategic plan. This is the way to look at what the needs are for this reserve fund and how important it is. I was simply talking about the stability of the organization. This is the most significant financial element of the stability of the organization.

To get to your point, Debbie, I'm expecting that the process that the Board has initiated to look at the rationale, the target level, and the governance of the reserve fund will be concluded in the sense of producing a draft in the next few weeks and then can be brought to the community for discussion and input then.

We have discussed with the Board by the end of the July to have defined the process to share the information with the community and engage the community. We need to finalize those documents. There's a lot of things happening between now and the end of July, but we need to finalize all the

documents that support the outcome of this working group from the Board. In the weeks that follow, then we would engage the community on that, and in parallel, the topic of how do we fund these expenses of \$8.8 million that are in front of us for FY17.

I'll share information out of the discussions with the Board. The Board was on the fence of not wanting to budget for those expenses, at least not fully, because of this funding issue. Where do we fund it from? There's been a compromise found in the sense of, "Let's put these costs for the budget into the budget for the full year, but the funding of it will need to be determined basically by Hyderabad."

Over the next three or four months, we're going to need to work together on how do we fund those expenses, which obviously is connected with the level of the reserve fund. This is an important conversation to be had over the next few weeks.

GIOVANNI SEPPIA:

Thank you, Xavier. Are we more or less happy to be anticipated that we'll be heavily consulted in the coming months about how to help [inaudible] a sort of fund strategy?

XAVIER CALVEZ:

Yes, but there's also for you an opportunity to participate in the auction proceeds working group.

GIOVANNI SEPPIA: [I thought] [inaudible] in the auctions.

XAVIER CALVEZ: Sorry?

GIOVANNI SEPPIA: I thought you were going to stop in the auctions, to participate in the auction process.

XAVIER CALVEZ: You can participate in the auctions if you want, as well.

UNIDENTIFIED MALE: [inaudible] [proceeds].

XAVIER CALVEZ: Sorry? Yeah. Because that working group will be working on defining the mechanisms to allocate those funds. What we would like to see emerging is that replenishment of the reserve fund may be a purpose that's spelled out for the auction proceeds as part of that working group, but it will only happen if the community suggests it.

BART BOSWINKEL: Just as a remark from a ccNSO council perspective, at the time when they were asked to participate, they declined to participate. The main reason was – there were some very fundamental reasons – they did not participate in the auction proceeds themselves. Therefore, it’s not the role of the ccNSO to define the spending of it, as well. That’s the ccNSO council perspective. It doesn’t mean therefore there has been no call for volunteers, etc., going out. That doesn’t mean individual ccTLDs. They have their own views, etc.

GIOVANNI SEPPIA: Thank you, Bart, for this clarification. We need to wrap up this working group session, so I’d just like to give the floor to Xavier for a couple of words regarding the next steps, so the plan for Fiscal Year 17 Operating Plan and Budget is to be approved by the Board when?

XAVIER CALVEZ: It has been approved.

GIOVANNI SEPPIA: It has?

XAVIER CALVEZ: It has been approved. I need to remember the days because it's already far away. Two days ago.

GIOVANNI SEPPIA: Has the consolidated plan been published?

XAVIER CALVEZ: When you say consolidated plan, what do you mean?

GIOVANNI SEPPIA: Consolidated plan, is that on many of the comments of the different stakeholder groups, the response from ICANN was that the Fiscal Year 17 would have been integrated with extra details of feedback or clearer figures before being approved.

XAVIER CALVEZ: The responses to the public comments that indicated that changes or clarifications would be made? These changes or clarifications have been made into the final plan. We have briefed the Board, not necessarily on an individual detail comment basis, but we've explained to the Board that there were a number of comments that required clarification, that we had proceeded with making those clarifications in the final plan. The plan was that submitted for Board approval two days ago is the one that integrated those comments.

The final document with those changes will be published very shortly, and it has a section at the beginning that lists all the changes that have been made in relation to those public comments and the responses that we have published on June 6th.

We need to publish it imminently, and there's also the five-year operating plan update that will be published, as well.

GIOVANNI SEPPIA:

At procedural level, would it have been better as there were several integrations and information that had to be inputted in the final plan to publish the consolidated before being approved?

XAVIER CALVEZ:

The way we are trying to do something along those lines is to publish the responses to the public comment as early as possible and as much in advance as possible of the approval of the budget. That's why we published the responses that we went over a little bit today 20 days ago on the 6th of June, so that there is a bit of time for the community to look at those responses and see how adequate or not they are.

The part that is just simply logistically overchallenging at this stage is that integrating, making the changes to both plans –

we're talking about 140 pages approximately of plan – do not let us enough time between the end of the public comment period, the response period, and the publication of those comments to turn around a final draft version of the plan, put it out for community input in sufficient time that if we get community input, then we integrate that input, we change the plan again, and then we submit it to the Board. This just doesn't fit.

GIOVANNI SEPPIA: Xavier, it's not to have a second round of comments, just to say this is the final product that goes to the Board for approval. That is what I'm saying.

XAVIER CALVEZ: So your point would be that once we've made the changes, prior to the Board ...

GIOVANNI SEPPIA: Yeah, this is what I mean.

XAVIER CALVEZ: Publishing it?

GIOVANNI SEPPIA: Yeah because currently the Board has approved a document that the community has not seen in its final version. It's not again to open a second round of comments. It's just to, as a matter of transparency and engaging with the community, to present to the community the plan and then saying, "This is going to be approved in two days, three days, or one hour, whatever."

UNIDENTIFIED MALE: Is that not part of the process at the moment? When you have the version that you're going to submit to the Board for approval, that you send that out to the community just to inform them? "This is the plan. This is going to the Board. If all is well, this is what it's going to be?"

XAVIER CALVEZ: No, we have not done that yet.

UNIDENTIFIED MALE: Okay. Maybe that's something for the meeting with the Board. We can see if they would agree with that because, like Giovanni says, it's a polite way of dealing with the community after they've taken the trouble to comment on the drafts.

XAVIER CALVEZ:

I find the idea very sensible. Again, the way we've tried to address that is to publish the responses. The responses indicate what changes we're going to make. When you aggregate the changes with the draft, you have an idea of the final, but I completely recognize what you're saying. Showing what the final is would be a nice conclusion of that interaction process.

I will discuss that with the BFC. Just so that you understand, there's a bit also the challenge, not that it's insurmountable, that until the Board has approved it, could change. It's not usually the plan that it changes because it's become a final one, but that will challenge in the process. I will discuss with the BFC, offering that idea and see what their reaction is. I don't have any specific issue, other than that timing process issue at the end of the period, that we make that happen. We produced that final draft for the Board in advance of their meeting. We produced it on the 14th, I think. We sent it to the Board so that the Board has enough time. They have hundreds of pages of documents to review before the Board meeting happens. We provide them documents, ideally at a minimum ten days in advance of the Board meeting. We did obviously produce that final budget by that time, and I think it was on the 13th or 14th that we submitted to the Board operations team.

It is available a few days before, and it could be shared, technically speaking, with the community, saying, “Heads up. This is what's going to be approved by the Board, or not.”

UNIDENTIFIED MALE: I understand the time constraints because I think it goes into operation on the 1st of July, right?

GIOVANNI SEPPIA: To wrap up this working group session, first of all, I think we have well covered. One point of the agenda was the next steps. To summarize the next steps now that the plan is approved, I think we are all looking forward to see the final plan published, first of all, and secondly to receive the feedback and follow up that ICANN committed to provide to the community in the responses to the various comments that were put forward by the different stakeholder groups.

In terms of this working group, again, I would like to highlight that tomorrow, at the end of the ccNSO session first day of meeting of the ccNSO, there is this session starting at 5:00. It's in Veranda 2, so the room close to this one. It's a session chaired by Xavier. I will be the moderator, and we have two guest speakers, Susanna Bennett and Sally Costerton. They will speak about two areas about which this working group comments several times

over the past years, and are mainly the [hub] and office strategy and HR from the ICANN perspective with different details regarding the hiring process, everything that we commented through these years.

In terms of this working group, I was quite happy with the way the working group functioned against the comments we submitted to ICANN Fiscal Year 17 Operating Plan and Budget. I think that the vision in sub-working groups continues to work well. I don't know if anybody likes to say something about the sub-working groups, but I think the production or the different comments work well. Thanks again to all of you who contributed and to those who cannot be with us today.

That said, is there any other business you'd like to discuss or any final questions to Xavier and his team that I would like again to think for the availability and also their dedication and commitment to exchange with us as many information as possible about the processes and figures and much more. Any last questions? Comments? No? Okay. I officially declare this session closed. Thank you, everybody. Thank you.

[END OF TRANSCRIPTION]