ICANN70 | Virtual Community Forum - ICANN Finance and Planning Update to the GAC
Monday, March 22, 2021 - 14:30 to 16:00 EST

GULTEN TEPE: Welcome. We will not do a roll call today for the sake of time, but GAC members' attendance will be available in the annals. May I remind you to indicate your presence by reflecting your full name and affiliation.

Interpretation is provided in six languages including Portuguese. You can select which language by clicking on the language icon located on the Zoom toolbar. Your microphone will be muted unless in the queue to speak. If you wish to speak, please raise your hand, and then state your name for the record and the language you will speak if other than English. Please speak clearly and at a reasonable pace to allow for accurate interpretation and mute all other devices.

This session is governed by the ICANN expected standards of behavior, and you will find the link in the chat for your reference. I will leave the floor to GAC chair, Manal Ismail.

MANAL ISMAIL, GAC CHAIR: Thank you very much, Gulten, and welcome back, everyone. For the next 45 minutes, we will receive an update regarding the Planning and Finance teams covering the overview the FPS, the planning process and update on next steps towards [indiscernible] please allow me to hand over, I see we have Xavier and Becky, so thank you and thank you to everyone else involved and over to you, please.

XAVIER CALVEZ: Thank you very much, Manal; I will switch to French for a few minutes and switch back to English.

Thank you very much, Manal. Hello, everyone. Good evening, good night, perhaps, depending on the time for you during this meeting. Thank you very much, Manal, for the opportunity to be involved in the GAC activities and to be able to present some information on the org as well as specifically finances and planning, an opportunity we are very grateful for, as it is very important for us to give you that information as well as a better understanding of what we do. And it is important to give GAC the opportunity to ask any questions that your members might have on those topics. The documents that we put forward for your

review have been drafted in order to give you some information, basic information and also give you the opportunity to ask questions so that we might be able to have discussions and a useful interaction for all. I will now speak in English.

Basically a quick introduction that I will go over now and then after that we have two main sections, and we are thinking to propose that at the end of each section if there are specific questions that would like to be asked by anyone, please do not hesitate, we will pause at the end of each section for that purpose. We will start after the introduction; we will start with the presentation on finance. The certain amount of information about our financials just to get you comfortable with a few topics, our funding, expenses, funds we manage, and of course any questions that these will suggest are welcomed.

After that, Becky will present an overview of the planning process, and the planning process is one that you participate in various ways or can participate in various ways, and the GAC has been participating into this process through both submissions of public comments like has occurred this year recently or with the trend's session exercise that the GAC has participated to as well. And we will provide a little bit more of an overview at the end

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about how you can participate in this process of planning and of course we will go over your remaining questions if we have enough interest by then between the two section.

A quick overview of a number of different activities that the organization carries out that I would put under a very generic label of operational excellence or operational support, here is a list of a number of different things that [indiscernible] does to support its staff in operating and its community of course. Planning is a function that has been existing in the organization for a long time. We now have actually a new department that concentrates all the activities and support to this process that has been created last year to help structure and iterate the [indistinct] planning. Finance will be presented in a few slides with Shani Quidwaj, our Director of Finance, and ICANN will be an overview of a number of our different financial [indiscernible] and those two will be presented in the next two slides.

Just to mention for your understanding and knowledge, ICANN has also a procurement function that helps organizing and carrying out the procurement of services or goods that we require for the operations, and of course we want to do that in a very ethical and transparent fashion as well as an efficient manner so

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that is what the procurement team helps us do. We have had for a while a risk management function that support's ICANN's operations to ensure we identify, manage, and mitigate risks of the operations which is very natural and necessary way of operating to make sure we help ourselves with identifying risks ahead of time. This is also a little bit of a planning type of activity.

The organization has also in place a project management network. This is something that was launched about a year and a half ago. And this is a network of individual staff members who work in other functions who get together to develop methodologies to help identify tools to provide the excellence of managing products well, best practices there, and that is what this group is helping to disseminate across the organization so that everything we do benefits from a structured and efficient approach. So this is a very important approach and endeavor in that it brings a lot of benefits.

Of course the organization operates mainly with its staff, and the human resources services are very important to help the staff work. Safety and security are a part of these function, the administrative support, and of course the management of resources from performance management to help with training,

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as well, et cetera. So these are a number of the various functions that the organization carries out, probably not an exhaustive list of the support functions within the organizations, of course we have legal support, IT support, et cetera, I simply offer a list of few of those today.

With that, I will let my colleague, Shani Quidwaj, give you a overview of our financials, and then Becky Nash will present the planning session.

SHANI QUIDWAJ: Thank you, Xavier, and all of you for joining the call and having us give this update today. Next slide, please. So here we have an overview of the information that I will be going over in the finance topic of this presentation. First, we will start off with the financial reporting structure of ICANN, and then from there we will review the fiscal 2020 financial results. Fiscal 2020 is the most recent completed fiscal year for ICANN. Our fiscal year starts on July 1st and ends June 30th, so this was the fiscal year that ended June 2020, currently a little more than half through our fiscal 2021 year.

Within the financial year update for 2020, I will focus on our funding as well as expenses and then lastly provide overview of

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the funds under management, and the funds under management essentially the funds or resources that ICANN has available to carry out our operation and mission. And then lastly we will close with a financial reporting overview. I will highlight some of the materials that ICANN makes available for posting on our website as well as provide the link if anybody would like to view those materials.

So here you can see an overview of our structure. And the bulk of this presentation our focus today will be on ICANN operations. ICANN operations is what we carry out all of our day-to-day core activity of our organization and includes PTI and -- we obtain funding for application fees and incur expenses for processing those applications and at the bottom of the slide the funds to carry out each of these entities or processes. SO our operations funded through our operating fund as well as our reserve fund for emergency basis and the new gTLD carried out through the funds we receive as well as there are auction proceeds relating to certain applications from that round.

And the last thing before the next slide, it is important here to note that 2012 new gTLD program was a self-funded program that separate from the operations of the organization, the same as we

think of a new round of gTLDs, so if a new round started, this would be separate funding expenses and would not be part of the core operating activities or funds of the organization.

Next slide, and now I will go through the fiscal year 20 results, starting first with the funding. And these specific slides are available on ICANN .org, and I will go through that later but as a reference, these are available on a quarterly basis we post this kind of a view. So you can see here for funding for fiscal 2020 was $141 million, in line with the funding this current year and the past few years. ICANN funding very stable, growing at a percentage of about 2 percent or so per year over the last couple years. The largest components of our funding are transaction fees associated with the domain name registrations, so you can see 40 percent of our funding could come from transaction fees directly from the registry, and another 26 percent comes from the same domain name registrations from the registrar; we just happen to collect the lower amount from the registrar than the registry.

The next two biggest components of our funding are what we call fixed fees. You can see here that the approximately 1200 or so TLDs delegated, there is an annual fee we collect from those registries that composes 21 percent of our funding and then have

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an annual accreditation we get from registrars along with application fees for new registrars that composes 10 percent or approximately 14 million of our funding. And then lastly, 2 percent of our funding coming from country code contributions, along with sponsorships we receive related to ICANN meetings.

Next slide, we have our expenses. And you can see that our expenses for fiscal 2020 were $126 million. Our expenses were $14 million lower than our funding, and this is unique in the sense when we build and develop our budgets, we plan for a balanced budget, meaning expenses in a plan should not exceed our funding. A key reason we spent lower than funding for this specific year was that we had lower travel costs. If you think July 2019 through June 2020, almost half of the year was impacted by the global pandemic which had significantly lower travel and meeting costs for ICANN. We had only one face-to-face meeting whereas we typically have three and that caused for lower expenses.

Looking at each of the various breakouts on this chart, the largest component of expenses are personnel, 58 percent of the costs ICANN incurred in 2020, related to salaries, benefits, and costs of our staff, about 388 of our staff, and we have about the same

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amount of staff to this day. And professional services, these are costs that the organization incurs for contractors, temporary help, legal fees, language services and audit services. Third biggest components of expenses are administration expenses, so a lot of our rent, facility related, licenses and telecommunication fees are in here.

I touched on the travel expenses, those are seven percent for this year, a lower number has been usual, as I said, there were significant travel restrictions and lower meeting-related costs. Lastly, we had six percent of our expenses related to capital, relates to IT, infrastructure, and security improvements, a lot related to the information transparency initiative that recently launched a few weeks ago.

Next slide. So here we have an overview of the funds under management. These are the four funds that ICANN manages to carry out our work. In total these are approximately $500 million or close to that. Next to each you can see the balance at the end of the fiscal year. So our operating funds at the end of the fiscal year on June 30th, 2020 had $61 million, the operating fund covers the day-to-day operations of the organization, including all items approved by the budget by the Board, set to maintain

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three months of expected operating expenses. If higher than that, there are active discussions with the Board as to what we do with those excess funds.

The reserve fund, there was $123 million, the reserve fund there to cover large expenses resulting from unavoidable, unplanned events. This is not an area that ICANN uses often and hasn't used to fund any of our expenses for quite some time. The reserve fund has been an active within the initiative within the organization to replenish that balance. Quite proud of the balance in there today and ultimately the goal we have for the reserve fund is to have one year of expense balance in there. So you can see that at the end of the past fiscal year it was pretty close to what our actual expenses were, and since then we have seen an increase in the balance and now trending at a number higher in our reserve fund than our annual operating expense, so that is ultimately the minimum or lower area we target as a balance for that fund.

Next, we have the new gTLD program, a balance of $86 million at the end of the last fiscal year, corresponding to the unspent portion of the [indiscernible] fees collected in 2012 for gTLD, still applications being processed related to that round and the costs on a daily basis to process those remaining applications. And

lastly, auction proceeds, $212 million to resolve string contention in the new gTLD program. These reserved until the Board determines a plan for the appropriate use of the funds after consultation with the community.

This concludes the specific financial update I had for fiscal 2020. Next slide, I will close with an overview with the reporting that ICANN makes available before we open it to questions and answers. On the left-hand side of the slide we have periodically throughout the year postings that we do and the right side annual postings. Quarterly we post financials, approximately [indiscernible] days after we post for the quarter, a good way to see how [indiscernible] similar formatting and structure as what showed today but a little more in depth review, and in addition there is the sub (indiscernible) of the CEO report including a financial update, and we publish travel reports and cost related to ICANN meetings periodically as those occur. On an annual basis we have an independent auditor's report, we have an annual report that is collaborated on with several groups within the organization, there is a lot of qualitative information about the organization along with financials. We do provide transparency into specific Board expenses, published on annual

basis. We provide an overview of contributions that we receive from all of the CCs and provide more details into our funding.

If you think back to the chart I had of the $141 million of funding, more transparency into which registries and registrars are making those payments -- Becky will go into more detail in a few minutes and then lastly, we publish our tax return form, called the form 990 in the United States, and we have ICANN's org's remuneration published. At the bottom you can find the link. I will pause for questions, and thank you all for joining us and giving us the opportunity to present today. Thank you.

MANAL ISMAIL, GAC CHAIR: Thank you very much, Shani. I am trying to see whether we have any hand up. I see none but I see a question in the chat. So from, what is the anticipated expense associated with the next round of new gTLDs? Göran mentioned 300 to 400 million based on average cost of application to process. How were these numbers determined, based on how many anticipated applications?

XAVIER CALVEZ: If I can answer, Manal. Just to address that, Göran has been using to try to explain the magnitude of a potential next round of new

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gTLDs, has been using the number of 300 to $400 million. Not based on anticipated number of applications, but based on the last round, 2012 round which had 2,000 applications nearly, and an application fee for those who remember, of $185,000. If you use that reference of the past as a proxy for the future, then it would be between 300 and $400 million. So that is the approach that Göran has taken to speak about the program. No one knows of course how many applications could be received in the next round, and there has not been any formal studies of what that number can potentially be at the moment. So just wanted to clarify that.

And of course there is a lot of speculation about how many applications can be received. There was in the previous round before the round was launched, some people thought we had 100 applications, others thought 10,000 applications, and we had 2,000, so that is what we have been using as a proxy. I hope that helps.

MANAL ISMAIL, GAC CHAIR: Indeed, Xavier, and I see no other requests for the floor.

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BECKY NASH: Thank you very much, Manal, this is Becky Nash from the planning department at ICANN org. On this first slide we wanted to present a high-level overview of the planning processes at ICANN. So we have a four-step approach with first the strategic planning process which defines ICANN's strategic direction, including the mission, vision, and strategic objectives and goals. We then have the operating planning process which is the process where we identify key initiatives and our functional activities or areas that all are in support to achieve the strategic plan. We then have the budgeting process where we allocate the resources and then the conclusion to the cycle's progress reporting with achievement and measurement of status of the ICANN planning process.

If we could go to the next slide. We wanted to highlight the various plans and documents that are developed each year as part of the planning process and their frequency. Just to note that ICANN's plans include the IANA. We had seen the strategic planning documents and currently under a five-year strategic plan for fiscal 2021 year, we have a five year operating and financial plan and an annual budget both for fiscal year 22 through 26. And as we have mentioned and will discuss later, our FY22 planning process coming to the final steps.

And then we have the ICANN [indiscernible] annual report. Next slide, please. An overview for the strategic planning process starts each year with identifying the strategic outlook trends, and we do have a session we are anticipating to do with the GAC this year, should be in early April, 2021, so next month, and we know that the GAC has participated in the past. So the first step identifying strategic trends, and these are sessions run with both the org, the Board, and the community. And for this year, the first step in our fiscal year 23 process, we have actually scheduled over 15 different sessions. And after we do the trends identifications part of the process we move into number 2, analyzing all of this data to develop and measure what type of trends may be impacting the planning process.

And number 3 on this slide, we determine the trends' impact and report this out to identify if there is any impact on the strategic plan changes and/or on the operating plan and budget. And last year, step 4 was actually started with our new strategic planning committee where we had an annual resolution or recommendation to the Board on whether or not to keep the 5 year plan the same and/or to update it. And this is all a very focused part of of our strategic planning.

On the next slide, a quick overview of the operating plan and its structure. So we currently have in the final stages of the FY22 operating plan and financial and cycle, and we like to highlight that the plans published for public comment which went out in December and we received many comments for our public comment, over 200 comments, and a staff report was just published as it relates to the planning cycle for FY22. And as a highlight of these plans, they are comprised of the functional activities of which we identify 30 for, and these are the functions that are to operate the organization, and that would be departments or functions such as finance, HR, or to implement ICANN's mission and mandate such as contractual compliance on the IANA functions. Those are examples of our functional activities and we have a list of those included in the plans in the appendixes to this presentation.

And then we have the operating initiatives, 15 areas of work that represent major areas that support the strategic objectives reported in the strategic plan. Both for the five- and one-year in a separate section to highlight they are key projects to support the strategic plan.

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If we go to the next slide. Just a brief update on the FY22 planning process and next steps. On this table we can see that we have accomplished together, Board, org, and community, several of the key steps for FY22, and currently next remaining steps after consultations here at ICANN70 are that the plans that are proposed for adoption will be submitted to the Board of ICANN for a decision in early May, and then after that we have the empowered community period that runs from May until June, once that is resolved with no petitions, then we would have the plans that are available to go into effect.

We would like to highlight that one of our key areas of communication is webinars, and we did have a webinar during prep week that we recommend to anybody that has interest in the FY22 and planning overall can watch that webinar.

Next slide. We would like to just conclude here with an overview of where our community members can participate in the planning cycle, and as it relates to FY22 as we indicated, they are at the May, June time frame coming up, but this gives all of the stages of our planning process that we have described here, and we hope that it has been useful information for everyone. We are highlighting here also an email address that is for our planning team where

you can ask questions or seek additional information at planning@ICANN.org. The next slide is for our Q&A session. So thank you very much.

MANAL ISMAIL, GAC CHAIR: Thank you very much, Becky. I see Xavier's hand up.

XAVIER CALVEZ: Yes, thank you, Manal. Just wanted to follow up on a question that [indiscernible] asked earlier in the chat relative to geographic distribution of our funding. I indicate to Jorge in the chat that this was not easy to produce because the domain name registrations that are the source of our funding are for generic names, therefore are by definition not geographically defined but we do track the distribution of registries and registrars by region, and I have slide I'm happy to share with Rob and Julia so they can share that with the members of the GAC who are ready to look at it, if that's okay, Manal.

MANAL ISMAIL, GAC CHAIR: Sure, thank you, that would be very helpful. And I see Jorge in the chat thanking you. Any other questions or comments? I see no hand up.

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XAVIER CALVEZ: Manal, I see a question from Ann.

MANAL ISMAIL, GAC CHAIR: Yes.

XAVIER CALVEZ: The question is, do you anticipate remaining under the 400 number in relation to personnel and staffing? At 388, what positions are unfilled? Thank you, Ann, for this question, first about the difference between how many people we are right now and how many people we're budgeted to be in our budgeted documents, which is what Ann is referring to.

Everyone needs to understand that first of all, we plan very much in advance of the fiscal year so the information that we include in our plans is obviously based on the situation at the time and then a certain expectation of evolution later on, and of course reality is different; one second -- our staffing number is of course changing a little bit all time. As soon as a person departs or a new person arrives, there is a -- the number changes, so this is a fluid notion, if you think about it this way.

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So while there is, let's say, about 18, -- 17 or 18 head count difference between the 388 now versus the 405 that we are planning for, there may be much more positions within those numbers that have changed between what we were planning to and what actually occurred because of that rotation of personnel. And the rotation of personnel within ICANN org up to the pandemic last year was a bit below industry averages; it was about 7 percent up to that time and it has been much lower since the beginning of the pandemic.

The first question is do we anticipate to remain at 400 people? This number, just for information, this number that Shani pointed out has been stable for a awhile, been approximately that number of people for the best part of the four to five last years, so a very stable head count. And of course the size of the organization is very much dependent on the volume of activity that we have. So imagine that we had launched the next round of the gTLD program that would trigger the need for resources that are incremental, knowing that a certain amount of our existing staff would also support this program but inevitably there would be a large volume of incremental work not carried out by the existing staff who carries out the existing ongoing activities.

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So new projects that are incremental will inevitably create at least for a while and possibly for a long time, the need for additional resources. Of course not all projects are creating such types of demands. But we see currently on the list of things for ICANN to carry out -- and when I say for ICANN, I mean all of us together, to carry out, I see a lot of projects that have their own resource requirements that are new to ICANN, auction proceeds, for example, grant making, for ICANN that will require resources that currently don't exist within the organization.

At the same time, we do not see a lot of activities currently carried out by the organization that will do away. There is not a lot of what we do is expected to reduce or disappear in the near future, which would help of course us reallocate resources, if that would happen or decrease resources in place and then increase resources where new needs appear. So if we proceed with a lot of those projects, which is of course to be determined in terms of timing and planning, we would definitely expect the need for additional resources. Sometimes because we don't have the skills, sometimes because we don't have the bandwidth, sometimes because we don't have either. I hope that was helpful. Thank you.

MANAL ISMAIL, GAC CHAIR: Thank you very much, Xavier, and I see no hands from GAC colleagues, but I see a question from Jeff in the chat. A number of people asked in another session who will be responsible in the organization for ODP; is that for the planning or [indiscernible]

XAVIER CALVEZ: Generally speaking, because the operational design phase, ODP, at work helping the Board make a decision on the policy, draft that has been submitted to the Board for a decision. And those policies are generally about generic domain name and the implementation through contracted parties. This is usually in the scope of responsibilities of the organization called gds, [indiscernible] formally called gde, and therefore, we would expect most ODPs to be led by the gds group but of course while that would be the case, it's also a very cross functional type endeavor that is supported also by other functions within the organization. But the responsible function would likely be the gds function. Thank you.

MANAL ISMAIL, GAC CHAIR: I'm sorry, is someone seeking the floor? So I can see a question from Roxanne in the chat. [reading] what is the timeline for the issuing of call for proposal for funding from the auction proceeds [indiscernible] finance.

XAVIER CALVEZ: Thank you. An important question. The program of auction proceeds has been worked on for a while, and we are difficult to say in terms of timing, but we are at a phase where the committee recommendations have been produced and now in the report of [indiscernible] auction proceeds now currently with the Board who will need to consider their recommendations. And then once the Board has considered those recommendations, the planning for the [indiscernible] grant-making program needs to happen and then the implementation of this.

To put it this specific project in the context of everything else the organization is dealing with at the moment, it will need to be prioritized so that we can actually allocate resources to this program and put it on the plate of the organization to carry out which has not yet been done. So we do not at the moment have -- the timing for having it implemented and therefore for the opening of applications for funding through the auction

proceeds, this will take more work and time before it gets implemented and first needs to be decided by the Board then planned for, then implemented and then after that the first call for applications can occur. It's very difficult at the moment to predict what that timing will be. Thank you.

MANAL ISMAIL, GAC CHAIR: Thank you very much, Xavier, and thank you, Vincent and Grenadines, our newest GAC member, for the question. We have arrived at the end of the session, so thank you very much, Xavier, Shani, and Becky, for a very informative presentation, and thank you to everyone for your attention. This ends ICANN Planning and Finance update, and to GAC colleagues, please remain in the Zoom room for an optional social gathering and networking and support staff. Please let me know when we are ready to start.

GULTEN TEPE: Manal, I am so sorry. We need to enter a different Zoom room.

MANAL ISMAIL, GAC CHAIR: A different room?

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GULTEN TEPE: Correct and let me share the link in the chat box.

XAVIER CALVEZ: And thank you very much, Manal, and thank you everyone for your time and interest.

MANAL ISMAIL, GAC CHAIR: Thank you, Xavier, and to ICANN org. And there is the link to the Zoom room, so please drop by and get introduced to everyone else. Thank you.

[END OF TRANSCRIPT]

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