

ICANN  
Durban meeting  
July 2013



New gTLD Financials - Update

# Agenda



Revenue & Expense Policy



New gTLD Total Program  
Budget Update



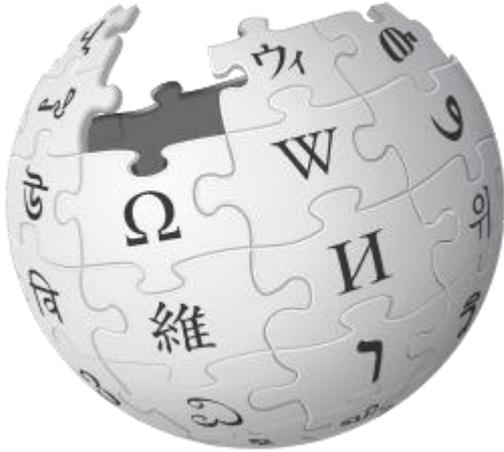
Public Comments

# Accounting principles



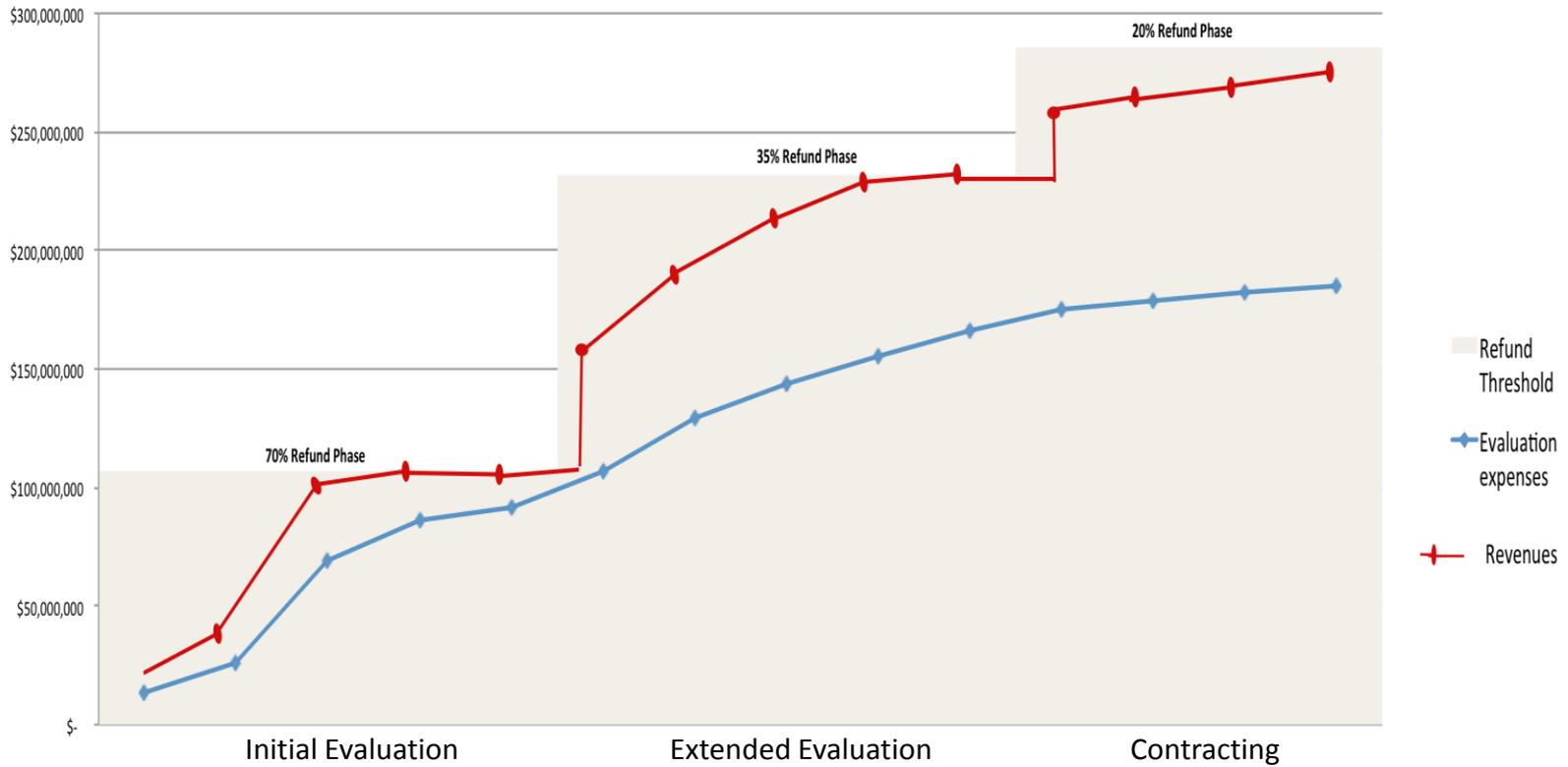
- Require that revenues and related expenses are recognized simultaneously, to the extent possible.
- For the New gTLD program, this occurs based on the progress of the evaluation process.
- Evaluation process costs are the selected measurement of the progress of the new gTLD program.
- This policy has been validated by 3 different accounting firms.

# Expenses, Revenue and Historical Costs



- Treatment of Expenses
  - are recognized as incurred,
  - regardless of when services are billed and/or paid.
- **Treatment of Revenue**
  - are recognized proportionally to evaluation processing costs.
  - limited to the non refundable portion of application fees
- Historical costs
  - are recognized proportionally to evaluation processing costs.

# Revenue recognition constraint



# New gTLD Program – Financial Summary

In \$k

	FULL PROGRAM BUDGET		
	Revised Budget (June 2013)	Published Budget (April 2013)	Variance Current vs. Prior Fav/ (Unfav)
Total Application Fees	\$ 363,342	\$ 364,872	\$ (1,530)
Less: Total Refunds	(52,025)	(49,934)	(2,091)
<b>Net Application Fees</b>	<b>\$ 311,317</b>	<b>\$ 314,938</b>	<b>\$ (3,621)</b>
<b>Expenses</b>			
Evaluation Costs	\$ 130,458	\$ 133,393	\$ 2,936
Overheads	41,371	31,386	(9,984)
<b>Total Operating Expenses</b>	<b>\$ 171,829</b>	<b>\$ 164,780</b>	<b>\$ (7,049)</b>
Historical Development Costs	32,454	32,454	(0)
<b>Total Expenses</b>	<b>\$ 204,283</b>	<b>\$ 197,234</b>	<b>\$ (7,049)</b>
<b>Remaining Balance</b>	<b>\$ 107,035</b>	<b>\$ 117,704</b>	<b>\$ (10,670)</b>

	Revised Budget (June 2013)	Published Budget (April 2013)	Variance Current vs. Prior Fav/ (Unfav)
<b>Remaining Balance</b>	<b>\$ 107,035</b>	<b>\$ 117,704</b>	<b>\$ (10,670)</b>
Risk Reserve *	110,040	115,800	(5,760)
<b>Net Remaining Balance</b>	<b>\$ (3,005)</b>	<b>\$ 1,904</b>	<b>\$ (4,910)</b>

# New gTLD Program – Operating Expenses

1930 Applications	Current Estimate Full Program (June 2013)	Prior Estimate Full Program (April 2013)	Variance Current vs. Prior Fav/(Unfav)
Operating Expenses			
<b>Direct Costs</b>			
Initial Evaluation	70,417	70,226	191
Extended Evaluation	6,800	6,800	-
Quality Control	9,851	9,821	30
String Contentions	2,426	2,426	(1)
Objection processes	7,690	10,741	(3,051)
Pre-delegation	24,216	24,303	(87)
Program Administration	9,058	9,077	(19)
<b>Indirect/Overhead</b>			
gTLD Team	12,415	10,078	2,337
ICANN Staff Allocation	22,769	14,601	8,168
Other Overhead	6,187	6,707	(520)
<b>Total Operating Expenses</b>	<b>\$ 171,829</b>	<b>\$ 164,780</b>	<b>\$ 7,049</b>

# New gTLD Program – Multi-Year View

1930 Applications	Current Estimate Full Program (June 2013)				
	FY12 Actual	FY13 Forecast	FY14 Forecast	FY15 Forecast	Total
New gTLD Applicant Fees					359,554
ICANN Applicant Support Contributions					138
Auction Proceeds					-
Additional Application Fees					3,650
Refunds					(52,025)
<b>Net Application Fees</b>	\$ -	\$ 162,507	\$ 112,105	\$ 36,705	\$ 311,317
<b>Operating Expenses</b>					
<b>Direct Costs</b>					
Initial Evaluation	3,172	58,400	8,845	-	70,417
Extended Evaluation	-	-	5,100	1,700	6,800
Quality Control	-	4,344	5,508	-	9,851
String Contentions	-	-	1,040	1,386	2,426
Objection Processes	39	4,586	3,065	-	7,690
Pre-delegation	-	4,902	16,272	3,041	24,216
Program Administration	450	2,438	3,550	2,620	9,058
<b>Indirect/Overhead</b>					
gTLD Team	689	1,737	6,428	3,561	12,415
ICANN Staff Allocation	1,137	5,725	9,889	6,018	22,769
Other Overhead	107	1,968	2,179	1,933	6,187
Historical Development Costs	-	16,941	11,687	3,826	32,454
<b>Total Operating Expenses</b>	\$ 5,594	\$ 101,042	\$ 73,562	\$ 24,085	\$ 204,283
<b>Net Remaining Balance</b>	\$ (5,594)	\$ 61,466	\$ 38,543	\$ 12,620	\$ 107,035
Investment Income		91	845	500	1,436
Investment Management Fees	-	(138)	(376)	(222)	(735)

# New gTLD - Risks

## 1. History

As per published paper “costs considerations-04Oct09-en.pdf”

- + Defined as: “Set of costs that are most uncertain and harder to predict”, including:
  - Inaccuracy of evaluation cost estimates
  - Additional evaluation tasks/phases vs plan
  - Incomplete estimates of support costs
  - Possible defense costs against unanticipated events.
- + Evaluated early 2009 at \$30m with help from Willis, through interviews/workshops leading to identify potential risks and assign ranges of probable costs.
- + Based on 500 applications, risks costs represented \$60k/app.

# New gTLD - Risks

## 2. Present

- + Multiyear forecast for the program assumes \$60k/application
- + At 1923 applications, initial risk estimated funds available are \$115.3m (less refunded portion)
- + Latest estimate of applied spend (From Jan 2012 to Jun 2013): \$1.1m.
  - TAS glitch
  - Legal analyses and litigation work.
  - Currently excludes any excess of evaluation costs versus original projections.

# Public Comments

## Historical Development Costs

- I. Is the plan still to transfer the recovered historical new gTLD costs into the Reserve Account?
- II. If so, when will the historical costs estimated for FY14 be deposited into the Reserve Account?
- III. Is there an estimate as to when the Reserve Fund will reach the Board's targeted amount?

*Answer:*

*The allocation to the Reserve Fund is usually done on an annual basis. It is expected that the payment of Historical Development Costs back to ICANN will ultimately result in an increase of the Reserve fund. The Board has requested Staff work on developing a target amount. This work is currently ongoing. The allocation to the reserve fund is determined on annually based on excesses of the Operating fund and expected needs.*

## Allocation

- I. Slide 43 shows that the staff allocation cost doubled in the full program current estimation compared to the prior estimation of June 2012. What is the reason for the increase?

*Answer:*

*The staff allocation increase versus the June 2012 estimate is resulting from the detailed knowledge of the requirements to operate and manage the program. Such knowledge and understanding did not exist prior to the evaluation work being performed and was under evaluated then.*

*The compression of the initial evaluation over 14 months (no batches) also increased costs.*

Questions?



Thank You