

**ICANN  
Transcription  
CCWG Auction Proceeds call  
Thursday, 19 April 2018 at 14:00 UTC**

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Julie Bisland: Good morning, good afternoon and good evening everyone. Welcome to the CCWG New gTLD Auction Proceeds call held on Thursday, the 19th of April, 2018. Attendance for today's meeting will be taken via the WebEx room. If you're only on the audio bridge would you please let yourselves be known now? And I have Xavier and noted. Anyone else?

Tony Harris: Tony Harris on the phone bridge.

Julie Bisland: Sorry, Tony, and you too as well. Okay, and hearing no more names I would like to remind all to please state your name before speaking for transcription purposes and please keep your phones and microphones on mute when not speaking to avoid any background noise. With this I'll turn it back over to Erika Mann. Please begin.

Erika Mann: Thank you so much, Julie. Hello, everyone. We can move already now to the Point 2. Do we have any update on the conflict of interest declaration? Okay, that's not the case. And let's move to Point 3 and Julie or Joke, I don't know who is going to put up the Board letter, the draft Board letter which we - wonderful.

So just maybe to give you just trying to find how to enlarge this letter. Oh my. Okay so what we have done here just to give you a little bit of background information, so Marika made a draft proposal which I then looked at and proposed some changes. And what we would like do with you today just to have a first look at it, that's not a letter which is going to be sent out before we really know what we are writing and we all feel confident. It's a draft letter, an early draft just to give you impressions and your, you know, agreement or disagreement with our approach so that we then can, you know, review it and can send you a second draft.

We already received some comments from Daniel and confirmed by Elliot and I would assume there are some others who would love to make some comments now, so please let us let us have a quick exchange about it. We only have for half an hour, a little bit less than half an hour now because we do have Marc D'Hooge joining us from the European Investment Bank at 4:30 so we have quite limited time for our first exchange concerning this letter. And if we do have time we then can look at the examples which we have sent to you as well.

Keep in mind we have much more time next time because the only thing we will do next time is actually talking about this letter and we're talking about the examples and all other topics which we need to take into consideration before we can make a decision or a recommendation for a decision about the mechanism which we would want to recommend. So we do have much more time next time. There's no need to hurry the debate today. But please tell me who would love to make some comments concerning this letter?

And please keep in mind again, I'm not able to see if you raise the hand so sometimes there will be silent on my side because the system doesn't allow me to see it and then I have to go to the chat room because in the chat room the Skype chat room I - Joke will - and Julie will send me the comments, not the comments but the raised hands so I know who wants to speak. And all those on the audio bridge, you will simply have to just come in and let us

know you want to talk. Do we have Daniel with us? I know that Elliot is not with us today. Do we have Daniel with us? Daniel, would you like to express your opinion now?

Daniel Dardailler: Sure. On the preamble or on the (unintelligible)?

Erika Mann: On the preamble; we're only talking about the preamble...

((Crosstalk))

Daniel Dardailler: So I sent my opinion, I think we have worked quite a lot on trying to describe what is an interoperable Internet, and I regret that we are now trying to - and some people are trying to drop that item because I think we're close to giving a good guidelines for the implementation phase. And if we don't do that (unintelligible) just saying that it has to be (unintelligible) that they have to start from scratch or if they use our stuff it's not a good quality enough I think to let it go like that.

The Board (unintelligible) raise some comments about the - just, you know, the list of item what it means when you can see that they have to be all fulfill or just one of them, I think we have to rephrase part of that but other than that I think it's a very good document that at least give more detail on what is a good Internet from our point of view. It has to be open and interoperable I think that made an effort to cover that, so I'm all for spending some time working on it, I can volunteer to draft something based on the Board comments if you think we don't have enough resource.

Erika Mann: Thank you so much, Daniel. Let me just give a quick reminder and maybe explain a little bit our approach and then I see Marilyn is in the queue. So just a quick reminder, the reason why we came up this idea about the preamble was to allow evaluator - future evaluators to understand better potential gray areas. So those projects which relate to the mission but might be not understood as falling within the mission. So this was the basic idea; it was not

the idea to identify, you know, a philosophical general approach in relation to ICANN so it was a very (clouded) idea.

In the meantime, we have - in working with the Board I think we have a much more precise terminology which actually captures this potential gray areas quite well in saying projects will be allowed that - in service of the mission which captures the - our basic idea quite well. So that's the first thing.

The second, we are not dropping the idea of the preamble because as you say, it might be still valuable and it might give some flavors to evaluator which is not even captured in this "in service of the mission." So we're not dropping it, we're just worried that we might continue to work on it forever and we forget our main goal. So we thought it would be still good to send it to the implementation team. But I hear you and that's why it's important to have this discussion today.

Marilyn, please.

Mc: Thanks, Erika. Marilyn speaking. In general I support - I think the intent behind your comments, Daniel. I think we did a good amount of work and I really appreciate the two Board liaisons focus with us and also then of course going back to speak with the rest of the Board. But I also want to recall that we are also writing for the broader community to understand not just the Board.

So I'm glad to hear that we're not discarding our work. If it needs further examination, I'm happy to re-volunteer again with others. But I do think it's important to keep it. And now I'm just going to say that I will just say that it's actually quite difficult to explain to a business person who - what in service of ICANN's mission means. That's actually much more difficult to explain than perhaps the Board thought about because of course they're so close to what ICANN's mission is.

Erika Mann: Yes, absolutely. There's a careful balancing act which we need to do, I agree with you too. Do we have somebody else in the line, somebody I can't see or somebody else who wants to raise a comment? I see that Ching is supporting in the chat room - oh where has it gone now? So Ching was supporting Marilyn's point. And there's, by the way, a point which I recommended as well to the leadership team so we will ensure once we sent out the next letter to the Board and we are preparing for your review as well a newsletter with some more in depth information to the SO and to the AC, that they are informed about our status where we are as well.

That's something we need to discuss and we will do this by email because I like to hear from you if you want the leadership team to send out this letter to the SO or ACs and - or you want to do it. So but that's something we can discuss in the email because we still haven't finalized the draft of the newsletter and then the draft of the accompanying email. Once this is done we will send this to you and then we'd like to have your opinion. Do we have somebody else now in the moment?

Sylvia made a comment, let me see if I can find it. So Marilyn is again saying in the chat room she's supporting Daniel's opinion and, yes, and the reference again that in service of the mission can be quite challenging. Sylvia is supporting as well the - that we should - shall continue to work on the preamble.

Okay then if this - can I get just the support or just somebody who is disagreeing with this approach because then I recommend that we build a volunteer group who wants to continue to work on this preamble. Is there somebody arguing against doing this? Okay, if this is not the case, then we will send out after the call today we will send out an email. Joke, can you note this please, then we send out an email and asking for volunteers? We heard already today so we get volunteers who would love to continue to work on the - on this preamble.

We will have to set ourselves a deadline so I don't want to have this discussion continuing forever because it will make it much harder to achieve our overall goals. So just give me an indication, is it possible for you to come back to this whole group in two weeks' time? I don't want to put you under too much pressure. Would two weeks' time be a timetable you can work with? Marilyn is saying it's plenty. Sylvia is saying we can try. Yes, next week, one week it's too short, I don't want to recommend it. Nadira is saying too busy next week, yes. So okay let's do the two weeks which would bring us to - Julie, can you remind us or Nathalie or somebody else about two weeks' time? I can't open my calendar in the moment.

Emily Barabas: Hi, Erika. This is Emily from staff. Two weeks from today would be the 3rd of May. Thanks.

Erika Mann: Okay thank you so much. This reminds me about something, it's the 1st of May so we are practically losing a few days because of Eastern Time and not - not Eastern time but because of the long weekend 1st of May. Do you still believe you can deliver something on the 3rd of May?

Okay, let's go with this, and if you come during your work to the conclusion you need another week that's fine with us, but ideally let's say 3rd of May and we put this in our email as a reminder and if there's somebody who's not saying yes, they would love to join the just special working group then please send us - be so kind to reply to the letter and send us your name so that we know who is going to be on the - on this working group. Thank you so much, everyone.

((Crosstalk))

Erika Mann: Yes, Kavouss, please. I hear you.

Kavouss Arasteh: Why you provide additional one week? I think two weeks is more than sufficient and definitely decide two weeks and not go beyond that because

they are not going to write a charter. They are not going to write a constitution.

((Crosstalk))

Kavouss Arasteh: Two weeks is more than sufficient.

Erika Mann: Kavouss? Kavouss, that's just what I said. So we are talking about two weeks, 3rd of May, it's two weeks.

Kavouss Arasteh: But you said of some people like another week more - what was you said - maybe I misunderstood.

Erika Mann: No, no you are right because I was worried about the long break around the 1st of May which is typically many people take holiday and are gone for a longer period so I was worried about this because these dates fall within the two weeks and then I said maybe three weeks or another week. But then I saw confirmation coming in the chat room from colleagues saying two weeks is fine so then I went back to the two weeks. We now have an agreement for two weeks, Kavouss.

Kavouss Arasteh: Okay, thank you. Fine.

Erika Mann: Pleasure. Pleasure. Okay, then let's have a look to the - if there's no further comment, anybody else who would love to make a comment about this topic? No? This is still Erika. Then let's move to the second item which is in the - mentioned in the letter. And which is I think you received as an attachment as well the changes we recommend concerning the examples. Again it's a kind of response to the letter we received from the Board.

And again, we received some comments from Daniel and from Elliot. Daniel, would you want to comment on your comments please here so that everybody can hear?

Daniel Dardailler: Yes, so just as a side note, I think it's a bit short for people to react by email on the document that you sent like a day advance. I think they should be sent at the beginning of the week so that people have time to react by email, but anyway. So my comments on the example, I understand that there was some pass at removing some name of organization, which I understand from the Board letter, but then I have some specific comment that I put in my email regarding the meaning of the sentence now that you've removed, for instance, IETF from the column. It's kind of difficult to see the unrestricted (gift) attached to organization that happened to work on some identifier.

The way it's phrased it looks like you opened the door for unrestricted (gift) for the organization no matter what they do so it's kind of the unrestricted (gift) doesn't bring anything and doesn't mean anything in particular in that case. If it's constrained the topic which is (unintelligible) identifier in service of the mission I don't see what unrestricted (gift) you know, bring to the example.

So I was - I had two comments of that nature and I think I also wanted to make sure that since the example was specific to standard (unintelligible) organization like IETF and that is received, when itemizing the example we should still keep the class of the organization that the example were made for so (unintelligible) organization I think it's fine. It's not nominative but it's to the - in the spirit of what the IETF and the W3C has - gave them as an example.

Erika Mann: This is Erika. Thank you, Daniel. I agree with you. We have to do the rewording there. And it has to be - it has to be (unintelligible) we don't have to do it now. We will have a long discussion about it next time. So please to everybody, be so kind, review the new - the list of example in its revised format, have a look at the comments made in the meantime by Daniel and by Elliot so that we can - and put in your recommendation as much as you like to so that we can resend to you a new draft based on the comments we

received and then we can have a more longer and more informed discussion about it next week.

Daniel, can I ask you something? So when I looked at your comments and I was wondering if there - can we in our environment be totally explicit about only including a reference to open standard or do we have to even be more neutral? I'm just asking this because I'm personally I'm a supporter of open standards and always worked towards this, but I know there might be some area - ICANN areas where maybe working with proper (unintelligible) standards which are not - would not be called automatically as open standard. So I'm - it's just an...

((Crosstalk))

Daniel Dardailler: ...question but we're only talking about example, so we're sort of making the example less specific but there are still example and the spirit of the example was to point at the open standard organization. So...

Erika Mann: Good point.

Daniel Dardailler: ...fine it doesn't restrict anything, they are just example.

Erika Mann: Perfect. Thank you so much. Already clarifies my question. Thank you so much. Anybody else?

Mc: Yes, Erika, it's Marilyn.

Erika Mann: Marilyn, please, apologies.

Mc: No, no, no worries. I will provide further written comments, Marilyn Cade speaking, but I just had a question and perhaps the solution is similar to Daniel's suggestion about the open standards development communities. One of the selected dilutions on Page 4, Item 4, the Board comment on

(unintelligible) support the development of NGOs and Internet governance forums whereas ICANN participates in and supports wider Internet governance development as it relates to our mission. It is well beyond ICANN's mission to heavily invest in Internet governance activities.

And then there's the question of should these examples be added to the list that are not considered to be in service of ICANN's mission. I think there would be many in the community that would strongly object to this interpretation that engagement - but again it may be a question of taking the language up a level. The development of grants that support multistakeholder activities that contribute to ICANN's mission or - and this is where we get into that question of, you know, consistent with in service of ICANN's mission - but - and I'll provide a written comment on this but I think there was a little bit of a throwing the baby out with the bathwater on a couple of these things.

So let me come back with written comments and maybe propose a way to word this again where this would be used as an example rather than saying development, it might be to support engagement in such activities. But I will come back with the written language.

Erika Mann: This is Erika. Thank you so much, Marilyn. This would be very, very helpful. And I see support here from Mary and from Sylvia for the points you raised. It would be wonderful if you could - and anybody else would have a look at it and just send us concrete proposals back or ideas back how you recommend how to reframe the current draft; this would help us so much. Thank you so much for doing this.

If you can do this until next week, keep in mind we want to have a longer informed debate about it. It would be good to receive it, if you can manage, before Tuesday next week. On Tuesday next week the leadership team will meet again and we will review everything we received and will then forward the next draft to you. We will include all the comments so don't worry, we will not do a consolidated version so you will be able to see all the comments we

receive. But this takes at least, for Marika and Joke, a few hours to be able to work on it and then to be able to send it to you on Wednesday relatively early we would need to receive your comments by Tuesday, because otherwise time might - it gets a little bit tight.

And I'm pretty sure you will be able to do this, but I'd just like to ask you and if you can please put it in the chat room but otherwise can we agree on a timeline until next week on Tuesday? Sylvia is saying we can try. Vanda is saying, guess so. Marilyn is saying she can work with Sylvia and Mary and Vanda. This would be wonderful, Marilyn. Do you need from us a reminder for this or - we put this in our record anyhow today. Joke, please be so kind, put this in the record that these ladies like to work together. And if anybody else would love to join please either put this in the chat room now or send an email to this group.

Okay, somebody else? Marilyn is saying yes, and perhaps we will also have a working call that staff can help us with. Yes, Joke, would you be so kind to put this again in our follow up and to do? Thank you so much. The team is now calling out to Marc so please be not surprised if I will end this - the discussion about this topic relatively soon just to let you know. Sylvia is recommending a Google Doc. I leave this up to you. I mean, that's something you will have to decide. I would imagine that you all will be able to use the Google document.

Any other topics somebody maybe wants to raise now before we have Marc joining us? No? Okay. John, I see you as speaking but is this really correct? Are you speaking? Are you on mute? Or is this just a pause indication I receive? Okay.

I'm going on silent now for a second until Marc is joining us. I hope it's going to happen in a second so please be not surprised.

Julie Bisland: Erika, we have mark on the line now.

Marc D'Hooge: Yes, hello. This is Marc speaking.

Erika Mann: Hi, Marc. Wonderful to have you with us. This is Erika.

Marc D'Hooge: Hello, Erika. Good afternoon or good morning, wherever you are. Hello.

Erika Mann: We are all around - we are all around the globe. So few words, I sent a quick note, Marc, about the work which you did in the - concerning the risk sharing finance facility just to give some general ideas. But of course you work since then changed and you're doing so much more inside the EIB so feel free to talk about the topics which are important and relevant.

Just to remind you quickly, we are searching for the ideal funding model, we call it a mechanism, so for the ideal funding model for the - for ICANN. This is a novel - the money which came in through auctions and it's - we expect it to be a one-off; we don't expect there will be generation of auctions in the future so we expect it to be a one-off. And we hope to come to a conclusion by June. We do have to have a recommendation about the funding model.

In your area, feel free to talk about everything you want which you believe is relevant, but keep in mind we are in particular interested how oversight can work between two institutions because you have - or not oversight but core operations, you strongly cooperated with the Risk Sharing Finance facility and one model which we have in mind might be a recommendation to work with a separate entity. We haven't drawn any conclusions, but it could be one.

But of course you work with many member states, European member states as well so you constantly need to be in partnership with somebody else and it would be interesting to hear from you as well about this.

Marc D'Hooge: Yes.

Erika Mann: The final point I'd like to make before we give the mic to you is be not surprised if during the discussion you don't hear suddenly anything. We are working with a new conferencing tool. We were used for years to work with a different one; this is a new one. Sometimes suddenly we experience something strange and I might not be able - or somebody might not be able to respond quickly what is happening. So just stay on line and we will be back in a second so please be not surprised. This is to you and then just give us your short introduction and then we'd like to have a question and answer with you.

Marc D'Hooge: Yes. Just for my understanding, is this discussion recorded somehow or is it...

Erika Mann: Let me ask quickly. Typically we record everything but let me ask our technical team.

Marc D'Hooge: Yes.

Erika Mann: Yes, it's recorded. Yes.

Marc D'Hooge: Just to make sure because when I'm talking I would be suddenly offline, that nothing is lost, that was my only concern really. I mean, I don't mind to be recorded at all so that's really fine.

Erika Mann: No, no, no of course, it's recorded, yes, all is fine.

Marc D'Hooge: Okay good. Okay.

((Crosstalk))

Marc D'Hooge: Maybe very, very briefly about myself if you allow me to say two or three words, so working in the European Investment Bank since 22 years and last

10 years very active in innovation finance. Innovation finance in EIB we are doing this since the last 90s. And since 2007 we have added very new interesting component to our activities in innovation finance because we started cooperating with European Commission and based on the idea that the Commission wanted certain policy objectives in terms of innovation research and development to be translated into more financing instruments and financial support options available to companies and promoters of innovative projects.

And that's how we started basically the cooperation between the two institutions and even three one can say because European Investment Fund, which is a subsidiary of EIB and the European Commission active especially in SME financing, and equity financing. So the Commission as a policy institution, a policy setting institution had the knowledge and the expertise so to say of the market of innovation promoters in the right - in Europe. And EIB of course we also had the expertise but we envision the financial expertise meaning the possibility to bring let's say the financial support which was needed by these promoters to that market.

And this is something the Commission obviously as an institution but not being a bank was not able to provide. So basically the corporation which has not been developed since 10 years and is very successful, I would say, has been based on the one hand on the policy angle of the Commission and the on the other hand on the policy driven business oriented operations of EIB.

And today after 10 years, 11 years, we cover basically with our instruments that are available for innovation finance we cover basically all the financing needs from very, very small companies, start up and seed and (unintelligible) capital to very large companies. So basically we can finance almost everything and what we are adding still today is financing tools and instruments for very specific market niches where so to say where the normal market circumstances cannot play the major role in awarding financial support. Yes.

So in that sense we combine grants instruments and financial instruments in a very efficient way even meaning that in some cases now we have companies or promoters which are getting at the same time grants and later on then financial support via EIB or via EIF. Yes. That's in a nutshell what we are doing, what the background of my work is. So already touches a little bit of a connection with some of the questions that you - the points that you raised, Erika. Mainly the cooperation between institutions, how can this work effectively, efficiently?

In my view, if you don't own the expertise but on the, let's say, the policy or the objective setting side, but also financial side then it's obvious that you need to look out for a partner or partners which are able to translate your policy and strategic objectives and considerations into concrete financial support for those beneficiaries that you target through your strategic objectives for investments, yes.

I think this is very important.

((Crosstalk))

Marc D'Hooge: Yes?

Joke Braeken: Marc, apologies for interrupting. This is Joke from staff. Erika has some connectivity issues and we are...

Marc D'Hooge: Okay.

Joke Braeken: ...trying to have her added again to the call in a minute.

Marc D'Hooge: Okay thank you.

((Crosstalk))

Marc D'Hooge: Should I just wait or...

Joke Braeken: Maybe you could elaborate a little bit on the - on how this could work effectively? You mentioned that if there's no expertise on the financial or the policy side that we need to look for partners that turn this into concrete financial support, is that correct?

Marc D'Hooge: Yes, yes fine. My understanding is that you have some money available, the discussion was about \$200 million, I don't remember if it's now euros or dollars, more or less the same, let's say, but that's on the side of ICANN. There is no funding experience, because of course no banking experience because you're not a bank.

So obviously if you would like to bring this money to the market and to those projects that you would like to target for investment in line with your investment objectives, as you define, and I understand that in your case this would all be somehow linked to what I would call in the larger sense connectivity, then of course you need to look out for a partner who is able to, yes, to respond to the business needs of the companies or the promoters that can drive this project as you would like to finance.

And the way we work with the Commission is that the Commission is a bit in a similar way, they had a large amount of money available for developing financial instruments and supporting them in a, let's say, in a kind of risk sharing mode. And the way we worked with them is that we set up a scheme whereby both the bank and Commission invested significant amount of money, which was obviously on both sides more or less identical.

And this money served as a, I would like to call it (unintelligible) piece, which basically is a kind of a provision or a, yes, one could say insurance buffer to finance a larger number of projects than the money actually invested. So basically, just to give an example concretely, the bank and Commission

invests each for instance €1 billion but then with this money the bank financed more than €11 billion of loan transactions and guarantee transactions. And the way we do this is because the €2 billion served as a cushion for potential losses on the risky transactions that we financed.

Okay so basically the whole idea behind the scheme and something which I would like to - you to reflect upon as well is that you - if you have a certain amount of money available for instance, \$200 million or euros in your case, this doesn't mean that you can only invest in the market this amount; you can invest much, much more if you find the right risk sharing structure with another partner who's able to place more money in the market, is able to organize also the funding for this money in the market. And then can deliver a much higher added value in terms of investments compared to what you initially place in that structure as a funding partner.

Maybe it's complicated to explain and just by the phone, I'm not sure. So if people have lost me I would like to answer questions or just simple questions, please, please go ahead, I mean.

Erika Mann: Thank you, Marc. I'm watching somebody is raising questions. So I'm back. So Maarten, who is a Board member - an ICANN Board member and he's as well on the - in this working group so he's saying, "Good point for investing and not just paying it all." And then I see there's a question from Marilyn. Marilyn, this is Marilyn Cade and she will raise a question. Marilyn, please.

Mc: Thanks, Erika. Marc, thanks so much for joining us. My name is Marilyn Cade. I come from the business community. My background is in - I was with a very large corporation that had a foundation, AT&T. So I've also done some other work in - with helping to stand up small NGOs. My question to you is, what you're describing to me and we're trying to learn from all different perspectives, but what you're describing to me sounds much more like a situation where funds are invested and then certain parts of those funds are allocated in what you mentioned as a sort of a matching risk environment.

As you know from the material that Erika and others have shared with you, ICANN is a public service corporation meaning...

Marc D'Hooge: Yes.

Mc: ...we're not actually a corporation, we are really more of a - we're kind of a hybrid but we do have a significant responsibility to maintain our 501(c)(3) status and to also avoid antitrust issues. So I say that because I'm interested in - has the work you've done engaged on what we might think of as more the - you referenced infrastructure but many of our examples might be capacity building, skills building as opposed to building and funding infrastructure. Have you engaged in what we might think of as kind of the social development side of grant making?

Marc D'Hooge: I'm going to try to - I mean, basically the Commission - European Commission, they spent - they have a huge budget for research and development, okay. And this budget was always spent almost totally in the form of grant and subsidies so they selected projects which were proposed by universities, companies, and all the likes of it, and they just expected the best projects on their merits and they gave them grants. And these grants obviously it's one off because once you pay the money you never get it back.

And you don't really care about the results of the investment of the grant either, so in that sense you may not be very efficient in spending money to the, let's say the market for innovation because you basically you just give it out and you never see something back.

And that's why this - about 10 years ago the Commission came up with this idea that we should maybe try to develop alongside the grants which obviously are and remain a very important instruments, but should maybe develop something alongside which looks more like a financial instrument and whereby the money invested by the Commission somehow not only

generates returns, returns in the forms of payments made by the beneficiaries of the funds, but also where these returns and also the initial investment can over time be recycled and reinvested in new projects of the same nature.

So in that sense creating not only a type of a revolving funding but also creating more like an economic logic for those projects to which such logic could apply. Which obviously is not for all of them because some projects have no economic perspective in the sense of potential to raise commercial or other revenues from let's say the results of the research because they are too far away from markets, but many projects do have this perspective and that is why we tried to develop these financial instruments alongside the grant business of the Commission so to say. Yes.

And we also try to develop more and more now because we have a range of products which today covers I would think basically all real market needs in terms of innovation finance but we also try to develop now projects which combine somehow the grant mechanisms and the financial type of thinking for those projects which are very, very high risk in terms of innovation but which could have a perspective (unintelligible) in the longer distant future so to say. Yes.

And this speak mainly about breakthrough technologies which can be in the field of energy, which can be in the field of communication and connectivity, digitalization and all you name it so it is a very, very wide range of activities for which so to say, adequate market funding is not available but which we try to make available to close that gap through our products. Yes.

Erika Mann: Marc, this is Erika. I have Vanda next in the - she would love to raise a question and I see some more. And then I have put myself in the queue. So, Vanda, please. Vanda, can you hear?

Vanda Scartezini: I'm in loop now?

Erika Mann: Yes, you're perfect, Vanda, please.

Vanda Scartezini: Okay. Thank you. So thank you, Marc, for your explanation. My name is Vanda Scartezini. I'm from Brazil. And my question is regarding to the grants that you distribute in Europe. They are allowed to for instance, organization to join other countries, you know, science and technology groups or anyway it's not - it's only related to local communities, local universities, or there are funds for joint projects around the world or for some regional determination like Africa or South America or whatever. So that's my question is just for Europe or you also have grants that goes out of Europe with this network of institutions organization in science and technology? Thank you.

Marc D'Hooge: Yes. Yes, thank you for your question, Vanda. The application field in terms of geographic - geography for innovation finance and for the research program of the European Commission encompasses all the member states but also about 15 other countries around Europe such as, for instance, Ukraine but also Turkey, Tunisia, but then also the Nordic countries like Norway and Iceland and so on who are also members of what is called Horizon 2020 which is the framework program for research of the European Commission. So we work in all these countries.

And obviously it can be for innovation projects which are specific or local to only one country but can also be of course (unintelligible) country. And in terms of the - what is new since a few years is that we basically we can do innovation finance all over the world but it has to be that either the project or the promoter has to be European of course both of them, but at least there always needs to be a link to Europe either in terms of the location of the promoter of the project or in terms of the location of the activities for research and development, yes.

So it can...

((Crosstalk))

Vanda Scartezini: Okay thank you.

Marc D'Hooge: ...perfectly well be today that we can finance a Brazilian company doing innovation activities in let's say in Belgium or in France. We can also finance a Brazilian company doing innovation activities in Turkey. But we could not finance a Brazilian company doing innovation activities in the states of America, that we could not do because there is no European link that case. But basically we have a very wide geographical playground because of the fact that we only need one part of the link which as to be European, yes.

Vanda Scartezini: Okay thank you.

((Crosstalk))

Vanda Scartezini: ...again.

Erika Mann: Thank you, Vanda. This is Erika, Marc and everybody. So I would love just to tell you a bit what is going on in the chat room because I'm not sure if you can see it actually, Marc. So there is...

Marc D'Hooge: No.

Erika Mann: ...a discussion - yes, there's a discussion some members who are saying that's an interesting idea, you know, to invest in some projects which might have a return of investment. And we have to discuss it at a very early phase but then I see some concerns coming in from some others who are saying we have to be a bit careful because the main idea is to - very likely main idea is to have a one-off fund and once the money is distributed we will shut down the fund again.

So just to tell you where we - this group is - I wouldn't even explore it any further but it's just to tell you what is going on. Maybe...

((Crosstalk))

Erika Mann: ...yes, because I don't see anybody else in the queue maybe in a moment. Please help me understand if somebody else is in the queue. Can we - could you maybe explore a little bit more the tensions or the - what you will see as a really important in having a merger between two entities concerning a fund even if it's only a funding merger concerning a particular - concerning a particular fund because in the case...

Marc D'Hooge: Yes.

Erika Mann: ...would make a recommendation to work with a different entity, what are the things you would recommend from your experience we should pay attention to and we should look into because you are doing it practically on a daily base, so what are the biggest problematic area you would highlight?

Marc D'Hooge: Yes, I think as I said from the very beginning, there is first of all if you need to partner up with someone else it's because you look for a partner who brings in competencies which you do not have yourself, that's the first reason to look for a partner for a longer term partner to do certain things on your behalf which you cannot - or you do not want to do yourself.

So in the sense of the cooperation between the bank and European Commission, whereby of course have to say that the bank is an institution owned by the 28 member states of the Commission and therefore by definition there is a certain kind of alignment of interest already between the bank and the Commission in the sense that - in the terms of policy objectives and policy driven action we are closely aligned, not fully aligned but closely aligned with what the Commission is wanting us to do.

But of course it means that you want to keep control in a certain way of what the other partner is doing with your money. And in this sense the way we cooperate is not by creating a fund between us and the Commission, it is based on a delegation agreement or a corporation agreement, one can give it different names, but basically the Commission delegated to the EIB group all the operational work related to finding and financing the projects for - which comply with the objectives that the Commission sets out.

And the way the whole business so to say is managed between us is by virtue of a steering committee which convenes twice a year or more often if required, and this steering committee basically steers the whole business development of the common corporation over the seven years that we cooperate together within a given budget period.

So obviously before you come to an efficient corporation in such a way you need to build trust between institutions and this is something which doesn't happen in one day. I think that we needed maybe, yes, two to three years to come to a point whereby we both understood from each other what we really wanted to and what were our priorities, our constraints, our concerns and our objectives. So it takes some time to get aligned in a sense on what these are.

And then afterwards, of course, it takes also time to make sure that you stay tuned on the same line for the future, yes. But, yes, trust, strong or decent well thought through system of cooperation with very good, let's say - legal agreements, defining the roles, responsibilities and actions of both parties is very important. And then of course very, very close communication throughout the lifetime of the scheme to make sure that you stay aligned and tuned and there is no gap in understanding of what the other party is doing, a little bit like in a couple, it's a bit the same thing. Yes.

These things take time especially because in our case, as I said in the beginning, I thought it was important to tell you that we have never thought of our corporation as a one-off scheme, we have always thought especially from

the Commission side their idea was to step away from one-off schemes but to develop something which could be recycled over time and create more and more economic impact.

That was really important to them in the sense that just to give you a very brief example, in the previous framework program for research and development and innovation, which was the FB7 from 2007 to 2013, the whole program was about €55 billion but if it would only be grants, this would go to the market and we'd bring €55 billion money into the market for innovation projects.

By spending on the Commission side only about I would say roughly €1.5 billion of this money, which is about 2%, 3% maybe, they generated investments in the market in terms of innovation finance of around €40 billion.

So basically 3% of that initial amount of money of €55 billion generated almost 75% of additional finance in the market in innovation projects. Just to see - to tell you how important this effect of putting the money in the market in the right way can be in terms of impact and impact I think is what both the Commission and the bank in this case are striving for; we want to create as much as possible, a real impact in terms of innovation, finance in the market in Europe and in the wider context.

And this was our main objective and I think it succeeded very well because basically we almost doubled the initial investment in the market by spending only a little part of the money in a different way.

Erika Mann: Thank you, Marc. This is Erika. I agree, this was one of the most effective programs. But I don't believe, and we will have to have a continued discussion in our group, it might be not something this organization is able to manage. But...

((Crosstalk))

Erika Mann: ...who knows? I mean, we still have few months to go and all your input is extremely important for us and for some of us which are closer to your ideas it might trigger, you know, a rethinking. But it's maybe too early to say this yet. But...

Marc D'Hooge: Sure.

Erika Mann: ...coming back to the - I'm just watching if there's somebody else, Vanda, I have you as raising your hand. Is this a new hand? No?

Vanda Scartezini: No, no. No.

Erika Mann: Okay, thank you so much. (Unintelligible) Vanda, or not?

Vanda Scartezini: No.

Erika Mann: No, good. Samantha, is there a question you want to raise from your point of view, maybe? Oh I see Tony has a hand up. So, Tony, please.

Tony Harris: Yes, can you hear me?

Marc D'Hooge: Yes I can.

Tony Harris: Yes, good morning. My name is Tony Harris. I work in Argentina and I'm leading the IoT development project down here which a lot to do with what you just said. Just to confirm that I understand correctly your example, excuse me, I've got a very bad cough. The example you gave where a percentage of the available funds was used and resulted in such a huge windfall of investments, but this was all related to research, development and investigation, right?

Marc D'Hooge: Innovation. Innovation, yes.

Tony Harris: Innovation, okay that would be the global term. I just wanted to confirm that because I think that's something to be considered when analyzing your very useful comment. Thank you.

Marc D'Hooge: Yes, yes, so basically the - what we are doing in terms of bringing finance to the market we finance projects which are completely in line with the objectives of the European framework program for research and innovation. This is very clear so in that sense what we are doing in terms of market impact and investments is completely aligned with what the Commission is also spending on the grants but we just do it in a different way and of course for projects which have also the perspective of economic return, yes. Yes.

((Crosstalk))

Marc D'Hooge: And those two things are complementary, they are not competitive, they are complementary because both coexist together and bring real added value to their specific market segments.

Tony Harris: Okay.

Erika Mann: Thank you, Marc. Tony. Sam, would you be interested in hearing more about how such a cooperation model would be shaped out in legal terms and how this agreement is achieved between these two entities just to give you maybe an idea, an example?

((Crosstalk))

Erika Mann: Yes, I give you a second because I have Marilyn coming in. I take Marilyn first and then I take you afterwards, Sam, is his okay?

Samantha Eisner: Sure.

Erika Mann: Thank you. Marilyn, please.

Mc: Thanks, Erika. Marilyn Cade. Marc, again, thanks very much for this detailed description. I have a question about issues and activities and responsibilities and costs about oversight of the projects, the annual evaluations, the assessment of achieving whatever objectives are mutually agreed to and then in some situations is there expected to be a repayment of some of the funds such as, you know, sort of providing a form of patient capital but that is then expected to be paid back?

Marc D'Hooge: So those questions - but indeed so the way it works is what I would like to propose maybe what I could do is try to find a presentation quite high level maybe that I could share with Erika and Erika can then share with all of you just to give you a bit more of a flavor of how it works. But the - in a few words basically the Commission has delegated fully the operational responsibility of bringing the funds to the market to EIB which means that we operating as a bank as we always do.

We are responsible for origination, negotiation, finalization, disbursement, monitoring, evaluation and so on of all the projects that we finance. So we basically we do the whole lot, yes. And then of course the Commission gets full information on everything they would like to know, we inform them obviously within the limits of what is possible under the confidentiality arrangements we may have with our clients, but within principle they have access to almost everything.

And the only thing they have to care about is that what we are doing is in line with the policy objectives of the research and development framework program. Yes. So they don't care at all about the financial issues, about all the issues which can potentially be linked and (unintelligible) to the transactions. They have no - they even if they don't want to know, it's fully in our hands.

The only thing that they expect from us is that we do it properly and that we do it in the same way as we would do it if will be our own money that we invest, yes of course that's basically our requirement, it is very clear that we cannot use the money to play around and do things which you would never do with our own money. We are also financially co-engaged so we invest the same type of money that they do in that sense. There is a clear alignment of interest in financial terms, it is very important.

And there's also clear alignment on the understanding that we are supposed to take higher risks so we're not supposed to do the business that we would do typically on our own behalf, we are supposed to look for financing for projects which entail higher risks in terms of market, in terms of operation, in terms of technology, and therefore which have more difficulties to access regular market finance then - that we would typically finance or what typically would be financed by, let's say, by commercial players in the market. Yes.

So and there we of course building on a huge and very long standing experience in terms of financing and innovation projects because we are in this business for 30 years. The bank itself is suggesting since 60 years now. And we obviously we have always financed our projects looking at the - not only financial aspects but also the technological and the economic aspects and therefore we have a very, very strong understanding of let's say market developments, market drivers both for private and for infrastructure business. Yes so...

((Crosstalk))

Marc D'Hooge: ...concrete example if you look at the sector like digitalization, we have a full team of dedicated specialists in our technical department who have worldwide experience and exposure to projects in this field. So these people know very, very well what happens in the market. They have a very good understanding. They know all the key players. And therefore basically they

are an ideal partner to look for if you want to invest your money in a, let's say, in an efficient way and to such structures. Yes.

Erika Mann: Thank you so much, Marc.

((Crosstalk))

Marc D'Hooge: Yes.

Erika Mann: I just want to see if Marilyn has a helpful follow up question - not helpful, sorry, she said helpful response. So she's making a comment this was a helpful response. And she's looking forward to the PowerPoint presentation which would be wonderful...

((Crosstalk))

Marc D'Hooge: Yes, I'll try to find something which explains the mechanism behind and how we did it and how it has become successful.

Erika Mann: Yes...

((Crosstalk))

Marc D'Hooge: I can maybe also share with you an evaluation report which could be useful because it really explains very well what we have been doing and how it has developed over time so that could be also very useful I think.

Erika Mann: Yes, it would be.

((Crosstalk))

Erika Mann: Whatever you believe you think is relevant for us it would be wonderful to hear.

Marc D'Hooge: Yes.

Erika Mann: We might come back to you at a later stage if you wouldn't mind...

Marc D'Hooge: Absolutely, please feel welcome, please feel welcome.

((Crosstalk))

Erika Mann: Yes, concerning infrastructure investments just in the future. We don't need this now but there might be something we would love to come back to you in the future because there might be one update we may have to do and so it would be good to learn from your experience. I just want to check with Sam. Sam, are you still with us?

Samantha Eisner: Yes, I'm here.

Erika Mann: Samantha, just explain briefly what you do so that Marc is understanding the background of your questions.

Samantha Eisner: Sure. Hi, Marc. I'm Samantha Eisner. I'm the Deputy General Counsel with ICANN. And I'm working closely with Auction Proceeds group on their work, participating in the meetings, and also we provided some initial, you know, legal and fiduciary constraints that we have around the program to make sure that we're - things like making sure we're staying within our mission and how it relates to our 501(c)(3) status under the US tax code.

One of the things that I'm really interested in from your presentation and I really appreciate the time that you've taken today to come speak with us, is around the mechanism that you have between you and the government in disbursing information. So you've spoken a lot about how you have expectations of the types of things you'll use the money for and you have

restrictions on who's able to access it and you can't go into high risk investments, etcetera.

So what are the governance tools that are used so that there can be an audit or regular reporting or other ways to check to make sure that the EIB as the facilitator of this project is actually staying within the bounds of what you've been entrusted to do?

Marc D'Hooge: Yes, so when setting up the program, of course, we have of course discussed extensively our investment strategy for innovation projects with the Commission which covers both let's say eligibility issues so what exactly can we finance, what type of activities can we finance because we finance R&D innovation activities, not only infrastructure.

So we also finance really the work of researchers and engineers in companies but also in public institutions linked to the innovation and to the research that they do which is something that not many banks I think would do because we did it because we started this activity based on our talks with the Commission we wanted to create this revolving type of activity in financing and promoting innovation across the board - the whole board so not just for grants but also for stronger and bigger amounts and bigger companies.

And so making sure that that our strategy is aligned to the objectives of the Commission which are laid down in the framework program legal base and which is very clear whatever can be done and what cannot be done. And we have - I would say there's a 99% of alignment between those two documents. So it's very, very close. We can do a little bit more in some areas and for some legal constraints we can do only slightly less in some other areas.

But basically one can say that the two are aligned from a policy standpoint of view, yes. And throughout the program basically we are fully free now to invest those (unintelligible) we believe are compliant with the objectives for

two reasons I think mainly, the Commission has decided over time to delegate this fully to us because they have developed such a trust in our capacity to do this properly that they thought that they had no added value in getting into the process and creating additional bureaucracy and also potentially of course some time issues - timing issues in financing project.

But secondly also the Commission has a seat on our Board so the Commission to a large extent sees and has access to all the project information because our Board approves all projects which are financed by EIB and therefore they have some - still some kind of control albeit more remote than a direct control. But let's say that the mechanisms - these mechanisms combined of course with evaluation, with audits and so on and so on, they provide I would say a sufficient level of comfort to the Commission that everything is done properly. Does that answer your question?

Samantha Eisner: Thank you...

((Crosstalk))

Marc D'Hooge: ...follow up question?

Samantha Eisner: Yes, that was really helpful. Thank you.

Erika Mann: Okay. Marc, I'm pretty sure if we - let's assume we come to the conclusion that a merger is good, we might want to come back to you to understand how these procedures and the control and the orders and the evaluation processes work, would this be fine with you?

Marc D'Hooge: Absolutely. Yes, yes.

((Crosstalk))

Erika Mann: Thank you.

Marc D'Hooge: Yes, no problem, of course.

Erika Mann: Thank you so much. Would you - because I don't see anybody else in a moment, would you be - could you tell us maybe a little bit about how much you factor in administration costs? Is this a fixed amount which you have in mind? We have heard from many saying 5% is the average, some are arguing it can be lower, some arguing it can go up to 10%. Is there a kind of miracle percentage you would say is the one you work with?

Marc D'Hooge: Let's put it this way, I cannot give you full details of course but let's put it this way, we have two types of revenues on the activities that we do in this field. The first type of revenue is that we - on all transactions that EIB and also we have this, we charge the client a small admin margin which is I can tell you really, really small, it just covers our working costs but compared to the size of our loans and the size of the portfolio I mean, obviously this cost remuneration for the admin of the - which encompasses all the activities of EIB, is very, very low, it's - I speak in the order of a few basis points per annum, which is really not a lot. And this we can keep.

Then the risk revenues on transactions basically so the risk component of the interest rate that we charge to clients, this goes to a very large to the Commission so the Commission gets a very big remuneration for the risk that they are taking on investing in these projects.

And then in addition to that what the Commission gives us back is a, I would say, some kind of yes, a fee remuneration which is consisting of two big parts, one part is one could say some kind of admin compensating for the program and horizontal transfer so work we do on the program, so basically the administration of the whole program which includes also the audit, the evaluation and so on and so on and so on.

Erika Mann: Marc, don't be surprised. This happens sometimes. We just...

((Crosstalk))

Marc D'Hooge: Yes, that's okay, no problem. No problem.

((Crosstalk))

Erika Mann: ...not muted, yes.

Marc D'Hooge: We have a second component which is based on the performance which is a different way for the Commission to, let's say to keep track and to keep control over the priorities and the objectives and they have set for the program. And this performance is based on milestones to be reached for the type of projects we finance, for the type of beneficiaries, for the countries, for the type of activities, for all kinds of things we have milestones. And if we reach certain milestones we get more and more money.

And in total I could say I can tell you that the total potential fee that we can get if we do this all let's say to the very best possible performance that we can do then one could say that over time, over the whole scheme which runs about seven years, that the remuneration per annum is a bit below 1%, maybe. Yes, in the very, very best case scenario. Guaranteed is only less than half of that, I mean, and even then guarantee means we have still to comply with let's say all the moral and (unintelligible) obligations that one can expect from a (mandate). Yes?

So for instance, providing reports in time, providing information in time, answering to requests, doing the work properly, staffing the team properly, etcetera, etcetera, all the things you would expect from someone who gets - we get a delegation to do something for you, yes.

So overall I think this kind of fee structure is not expensive for the Commission because I think if you would go to the private sector and ask a private partner for doing this type of work, you would probably end up with fees which are at least double as high as this one per annum, but it's something which for us I would say from a return point of view, even if you are non for profit institution, it is something the bank can accept as a workable type of sustainable operation for longer term, yes.

Erika Mann: Thank you so much, Marc. This is really helpful because we haven't even looked into this but that's something which we would not do, the current group, but this would be done what we call an implementation group which then will follow our work but it's interesting of course because it's true, the group one would merge with - would have some kind of an interest in receiving a certain percentage of the money because otherwise why should they do the work? Yes, absolutely and it's good to have this - your concept.

Is - so I see some comments here coming in in the chat room. This was 1% per year so just - and it's over a certain period of time.

((Crosstalk))

Erika Mann: ...seven year period.

Marc D'Hooge: Of course that the transactions which we finance they run over a much longer period so if we finance something for instance in Year 7, which can run for 10 years, then we still have work with the transaction for the next 10 years. So basically the work of the bank link to the whole scheme is not 7 years but is something between 7 and 20 years maybe. See so if you look at this way, of course then the idea of 1% per annum, even is even lower because you would need to take into account that you have also administrative costs which come after year 7, yes. And it's not...

((Crosstalk))

Erika Mann: Marc, sorry to interrupt you. The 1%, because I followed the chat room, so the 1% is based on the total amount of the project granted for one year?

Marc D'Hooge: No, it is based on the money invested by the Commission.

Erika Mann: Understand.

Marc D'Hooge: Yes. So it's basically what they invest, this is what we can potentially I mean, a percentage of that can - we can potentially claim as a fee if we do all the things according to the agreement of course.

Erika Mann: Yes, so it's not 1% of total investment but let's say the total investment is €100 billion and the Commission is giving you €1 billion, then it's 1% of €1 billion?

Marc D'Hooge: Exactly. Yes.

Erika Mann: Per year. Per year. Got you, wonderful.

Marc D'Hooge: Yes.

((Crosstalk))

Erika Mann: This is helpful just to have an indication. And you are saying you already on the low end so private...

((Crosstalk))

Marc D'Hooge: I would think private partners would ask for more...

((Crosstalk))

Marc D'Hooge: ...much more, but of course we have different logic as well and we still get some money back on the admin margin of course, this is very clear, which is very important. And we also get some part of the risk fees because we also take risk ourselves. So it is a - the calculation which is not easy to make and I would be tempted to say that the lower the amount you invest the more you will have to pay in admin fees because there's always some kind of a basic overhead admin cost which will have to be covered, which is independent from the size of the scheme so yes.

Still we have calculated that for the Commission even if we're supposed to take very high risk but the way we take the risk because we look very much in detail at all the technology and financial risks that are incurred and also the market risks so we finance very good projects, good projects in terms of the innovation strategy and activity but which sort of say as a relatively weak financial structure, that's basically what we are doing here. But so the risk margins are quite high in some cases but the Commission gets most of the risk margin gets - it goes to the Commission and therefore the return in terms of the initial investment of the Commission is very, very high so they - as long as we don't lose too much money they make a very, very good business out of this.

Erika Mann: Yes.

Marc D'Hooge: And they took the view that they would like to reinvest then in the next scheme so at some point in time they will have to stop investing because they will just perpetuate the scheme based on the revenues from the past schemes. You see?

Erika Mann: Yes. Yes, it's a pretty good model which you invented.

Marc D'Hooge: Yes it is.

((Crosstalk))

Marc D'Hooge: It is a very, very strong model, yes, yes.

Erika Mann: I just wanted to check quickly with Tony. Tony, is this an old hand or it is a new hand? We have only two minutes left so Tony, can you indicate it's a new hand? Okay, Tony, either can't hear us or he is maybe enjoying a tea right now. Anybody else? Because we have two minutes left. No, I don't see further question in the chat room. Marc, let me thank you so much for your insight and for your time today. I know how pressured time is for you and how little you do have so we do appreciate this immensely. Thank you so much.

((Crosstalk))

Erika Mann: Thank you coming in in the chat room. And thanks so much for offering additional materials and allowing us to come back to you if we have further questions. Thank you so much.

Marc D'Hooge: You're most welcome.

Erika Mann: Enjoy the rest of the day.

Marc D'Hooge: Thank you, it was a pleasure talking to all of you. Enjoy your discussions, enjoy your thinking and I hope that you will find the right way to put the money to interesting projects.

Erika Mann: Thanks so much. Take good care, Marc.

Marc D'Hooge: Take good care. Bye-bye. Speak to you soon.

Erika Mann: Bye-bye.

Marc D'Hooge: Bye-bye.

Erika Mann: Talk to you soon. Bye-bye Marc.

Marc D'Hooge: Thank you. Same to you. Bye.

Erika Mann: And bye. So everyone, I think we are pretty much at the hour. And I will have a follow up discussion with Joke just to ensure that all the points which we captured in Point 3 are reviewed and then we will send you a follow up email with all the to dos we discussed today. And hope - in case something is forgotten please be so kind and send us a reminder. Marika couldn't be today with us, she apologizes and I will do the work today with Joke. So thank you so much, everybody. Enjoy the rest of the day or the evening or the morning and talk to you next week. Thank you so much. Bye-bye.

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