



Auction Proceeds

Overview of Financial considerations

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- Overview of governance requirements
 - Annual independent audit
 - Fiduciary requirements
 - ICANN's Accountability and transparency
- Overview of ICANN's operational requirements
- Overview of expense types

Auction proceeds – governance requirements (1/2)

- Annual independent audit:
 - ICANN is subject to such audit because it is a non-profit organization based in the US (other countries may have different requirements).
 - The objective of the audit is “to obtain reasonable assurance about whether the financial statements are free from material misstatement.”
 - The auditors opinion, if clean, is: “The financial statements [...] present fairly, in all material respects, the financial position of ICANN [...] in accordance with US accounting principles.”
 - The audit does not have the objective to:
 - verify every transaction, or entry,
 - detect fraud.

Auction proceeds – governance requirements (2/2)

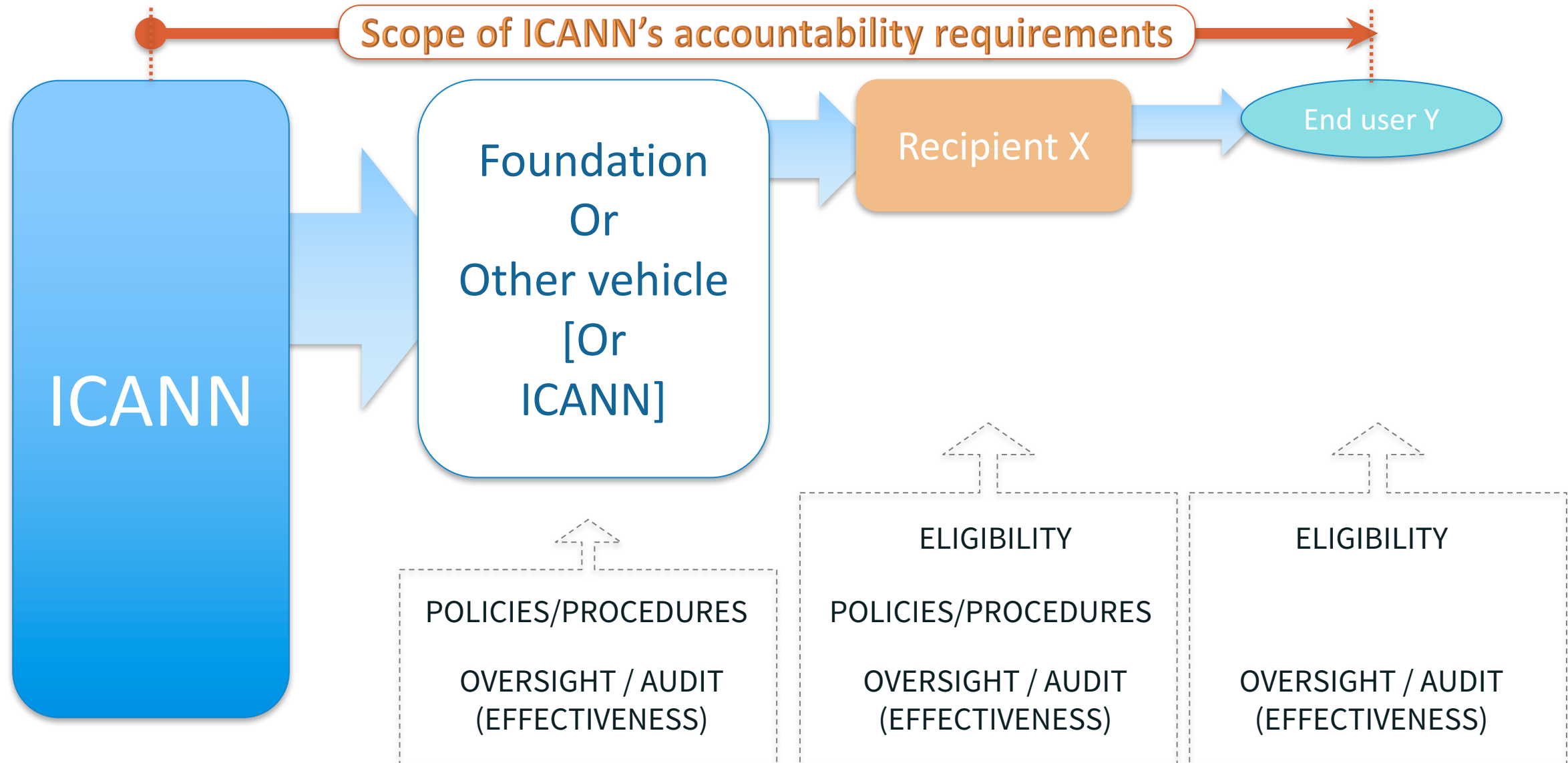
- Fiduciary requirements for directors and officers of ICANN:
 - Disbursements must be in accordance with ICANN's mission.
 - Disbursements must be made for lawful purposes.
 - Oversight and management of the funds (Investment policy, compliance, performance management).
- Requirements resulting from ICANN's accountability and transparency to the public:
 - Engage with the Community on planning, performance and reporting of activities carried out.
 - Be available and ready to respond to inquiries, publish documents and information.

- ICANN's operational objectives:
 - ICANN must ensure policies and procedures exist and are effective to manage the applications for funding:
 - Receive applications for funding,
 - Evaluate applications for funding,
 - Organize quality control and/or audit of applications evaluations,
 - Organize and support reconsideration procedures for evaluation decisions,
 - ICANN must be able to manage and address risks (including possible legal defense).

Auction proceeds – governance requirements (2/2)

- ICANN's operational objectives (cont'd):
 - ICANN must design and implement verification procedures to ensure compliance of the funds disbursements with the approved objective, IRRESPECTIVE of the mechanism retained to organize the evaluation and disbursement.
 - Organize disbursement process and monitor disbursements,
 - Monitor the compliance of the recipient's use of the funds with the intended purpose of the grant (which justified approving the application),
 - ICANN must put in place reporting and publication processes to ensure transparency on evaluation procedures, results, and usage of funds.
 - Explain/report on/publish results of evaluations,
 - Explain/report on/publish analyses of the effective use of the funds.

Auction proceeds – funding workflow illustration



Auction proceeds – Expenses (1/2)

- “overheads”:
 - Term used to describe non-operational, administrative type of expenses, in support of an operation, not the costs incurred for operations.
- “Auction Proceeds” expected expense types:
 - **Design and implementation** costs: to create the structure(s) necessary to organize the auction proceeds management.
 - **Evaluation** costs: to receive and assess the eligibility of requests for funding.
 - **Governance** costs: to perform the control and oversight of the evaluation, disbursement and use of the funds, and organize the transparency mechanisms.
 - **Overheads** costs: costs of support functions to performance of above functions. Support functions typically include: Management, Legal, Communications, Human Resources, Finance, Information Technology,...
 - **Risks/defense** costs: to manage possible issues, possible IRPs, possible lawsuits,...

Auction proceeds – Expenses (2/2)

- Some of the Factors affecting the level of expenses:
 - **Type of structure** used to manage the process: ICANN vs foundation vs third parties organization,...
 - **Number / size** of the grants: many/small, few/large
 - **Disbursement pattern**: one-time vs over time, capital until exhaustion vs interest-only,...
 - **Diversity** of applicants and incumbents,
 - **Complexity of the projects** funded: one-time event vs dispersed on-going operations, easy to evaluate effectiveness or outcome subjective,
 - Frequency/complexity of communication/reporting requirements
- ➡ Implication on **size** and **skills** of staff support
- ➡ Implication on level of **overheads costs**

The “percentage of overheads” is the result of objectives and requirements, not a driver to the expenses.

Additional considerations (from CCWG AP call of 8 June 2017)

- Contributions of external resources to ICANN Organization: volunteers, subcontractors, consultants,...
 - ICANN's fiduciary responsibility will require that it ensures that external resources used are free of conflict of interest, are competent, and are available to deliver the required services according to defined requirements.
 - Outsourcing any part of the process does NOT take away from ICANN the responsibility of the work outsourced. Mechanisms of selection and monitoring need to be put in place to manage the outsourced work AS IF it is performed internally.
- “One off” vs “recurring”:
 - Even if it is a “one off” project, it could take several years, dependent upon the modalities of disbursement and monitoring. ICANN is accountable for the use of the funds, not just until funds are disbursed.
- Percentage of expenses:
 - Should be measured in proportion of total funds (ie \$233m) for simplicity and clarity.