



# 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

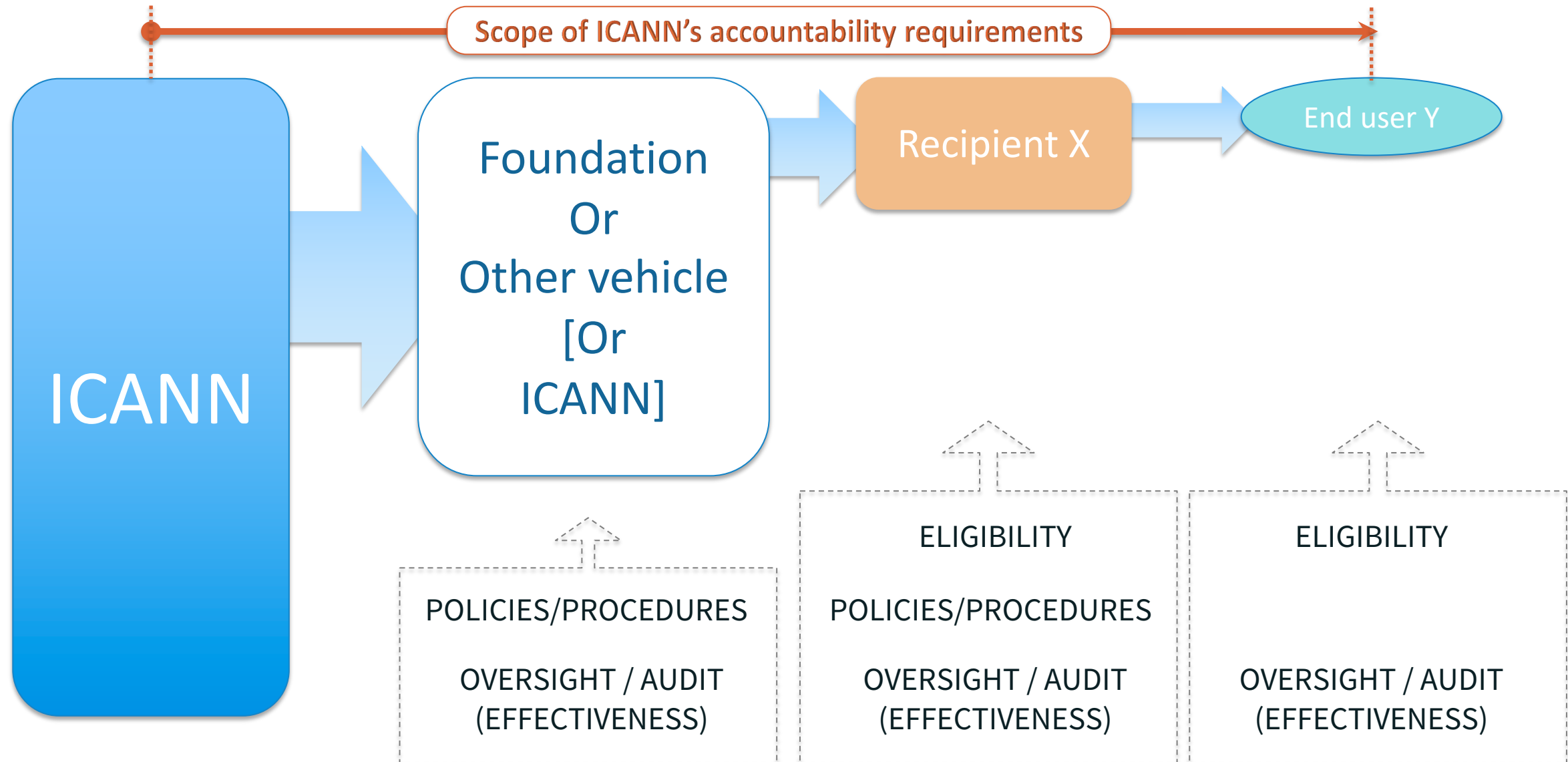
- Annual independent audit:
  - ICANN is subject to such audit because it is a non-profit organization based in the US (other countries may have different requirements).
  - The objective of the audit is “to obtain reasonable assurance about whether the financial statements are free from material misstatement.”
  - 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.

- 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 (1/2):
  - 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).

- ICANN’s operational objectives (2/2):
  - 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,...



# 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.