

APNIC EC Meeting Minutes

Teleconference

Thursday, 21 July 2011

Meeting Start: 11:00 (UTC +1000)

Present

Akinori Maemura
Che-Hoo Cheng
Gaurab Raj Upadhaya
Kenny Huang
Ma Yan
Paul Wilson
Wendy Zhao

Geoff Huston
Connie Chan
Irene Chan
Richard Brown
Pablo Hinojosa

Apologies

James Spenceley

Agenda

1. Agenda Bashing
2. Review of Minutes and Actions
3. Financial Report
4. India NIR status
5. ARIN Policy Announcement
6. USG FNOI Response
7. Transfer Fee
8. DG Report
9. AOB

Minutes

The Chair of the Executive Council called the meeting to order at 11:12 (UTC+10).

1. Agenda Bashing

There were no changes to the agenda.

2. Review of Minutes and Actions

The minutes of the meeting held on 17 June 2011 were approved.

Action ec-11-013: Secretariat to publish minutes of the 17 June 2011 meeting.

3. Financial Report

The Financial Report for June 2011 was reviewed (attached).

At the end of June, APNIC maintained \$7.0m in cash reserves, \$1.1m in managed fund investments and \$7.4m was invested in the APNIC Office.

Expenses are 1% lower than the pro-rata budget projection, due mainly to the Auditor's request to write down of the residual lease liability for the Park Road Office in the 2010 accounts. Revenue is up by 4.5% from the pro-rata budget projection, as resource allocations made to new members has been greater than anticipated in the budget projections. The projected operating surplus for 2011 is currently projected to be some \$900K.

At the end of June 2011, APNIC had a total of 2,763 members serving 52 economies. The number of Extra Large members increased by 2 in June.

The EC approved the June 2011 Financial Report.

The EC reviewed the mid-year financial review (attached). It was noted that a number of conservative assumptions relating to revenue risk and expenditure in 2011 have not eventuated, and as a result the expected operating surplus for 2011 is currently to be some \$990K. It was noted that no change to the expenditure authorities given in the 2011 Budget decision was being sought. The EC reviewed the set of preliminary financial assumptions that will be used as input factors for the drafting of the 2012 budget.

The EC noted the mid-year financial report.

4. India NIR Status

Pablo Hinojosa reported to the EC that APNIC had completed the program where four operational staff from NIXI visited APNIC office for an on-the-job training program for a duration of three weeks, from 27 June to 15 July 2011. It was reported that the visit program has received positive feedback, and APNIC staff are in New Delhi for follow up meetings. It was reported that NIXI's senior management group plan to visit APNIC office in the coming week.

The EC noted that further discussion of the process and standard to be applied to the recognition process will be required as part of the follow up actions to these meetings. The determination of the appropriate operating model for the NIR will have a bearing on this matter.

5. ARIN Policy Announcement

The EC was informed of recent announcements by the CEO of ARIN relating to ARIN's proposed handling of the legacy address space that is currently held by ARIN.

6. USG FNOI Response

The EC was informed of further developments relating to the Further Notice of Inquiry (FNOI) that was recently issued by the National Telecommunications and Information Administration of the United States Government (USG). The EC noted that the proposed Statement of Work (SoW) that was to form part of the proposed IANA Contract appeared to

indicate an intent for increased USG interest in the carriage of the IANA function, and endorsed a NRO response that communicated APNIC's concerns in this area.

7. EC Review of APNIC Transfer Fee

The EC determined not to change the existing transfer fee structure at present, and to next review this matter as part of their review of the APNIC 32 meeting's Policy SIG report.

8. Director General's Report

The Director General noted that agenda items already considered in this meeting included many items that would've been included for mention in the D-G's report.

The D-G reported on the current status of the provision of legal council to APNIC.

The D-G noted to the EC the designation of the HR Manager to HR Director of APNIC, and the Senior Public Affairs Advisor to Public Affairs Director.

The D-G also noted current recruitment efforts for positions in the Help Desk, Administrative Staff and NOC as part of normal staff turnover in these areas.

9. AOB

The EC noted the requirement to appoint an Election Chair for the NRO EC Elections scheduled to be held as part of the APNIC 32 meeting.

Next Scheduled Meeting

Sunday, 28 August 2011 (APNIC 32, Busan)

Meeting closed: 1:30 pm (UTC+1000)

Summary of Action Items

- Action ec-11-005:** EC to review insurance coverage on an annual basis
- Action ec-11-006:** Secretariat to provide independent advice on the current APNIC insurance Cover
- Action ec-11-007:** James Spenceley and Geoff Huston to draft a member petition process
- Action ec-11-012:** Secretariat to publish EC Response to the 2011 Membership and Stakeholder Survey - **Completed**
- Action ec-11-013:** Secretariat to publish minutes of the 17 June 2011 meeting.



APNIC

Semi-annual financial report

(in AUD)

For the month ending June 2011

Asia Pacific Network Information Centre

1. Balance Sheet

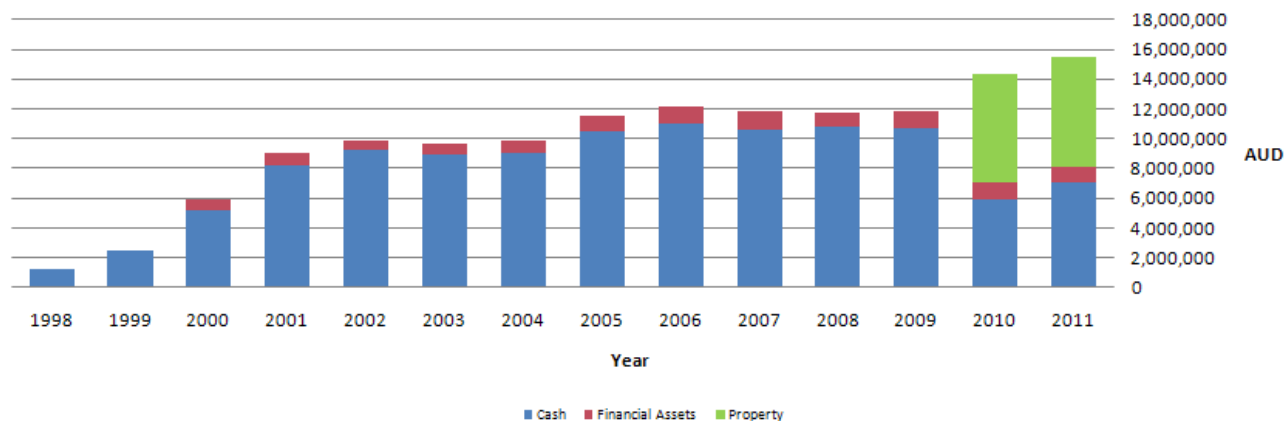
Statement of Financial Position (AU\$)					
	30/06/2011	% of Total Asset or Liab+Equity	% change 31/12/2010	Year-End 2010	Year-End 2009
CURRENT ASSETS					
Cash/ Short term deposits (less than 12 Months)	6,545,860	37%	9.9%	5,953,850	6,686,084
Term deposit investment (12 months)	500,000	3%	0.0%	0	2,300,000
Receivables	576,900	3%	-34.4%	878,766	496,734
Others	424,820	2%	-49.9%	847,108	869,780
TOTAL CURRENT ASSETS	8,047,579	45%	4.8%	7,679,724	10,352,598
NON-CURRENT ASSETS					
Other financial assets	1,100,412	6%	-3.3%	1,137,515	1,127,796
Property, plant and equipment	8,769,813	49%	4.5%	8,390,655	1,607,819
Long term deposit investment (more than 12 months)	0	0%	0.0%	0	1,700,000
TOTAL NON-CURRENT ASSETS	9,870,225	55%	3.6%	9,528,170	4,435,615
TOTAL ASSETS	17,917,805	100%	4.1%	17,207,895	14,788,213
CURRENT LIABILITIES					
Payables	215,223	1%	-48.3%	416,262	797,989
Provisions	1,305,097	7%	-23.3%	1,701,920	1,055,625
Unearned revenue	6,043,012	34%	-0.5%	6,074,215	4,130,987
TOTAL LIABILITIES	7,563,332	42%	-7.7%	8,192,397	5,984,601
EQUITY					
Share capital	1.00	0%	0.0%	1.00	1.00
Reserves other financial assets investment *	73,848	0%	0.0%	128,004	166,675
Retained earnings	10,280,623	57%	15.7%	8,887,492	8,636,936
TOTAL EQUITY	10,354,473	58%	14.9%	9,015,497	8,803,612
TOTAL LIABILITIES & EQUITY	17,917,805	100%	4.1%	17,207,895	14,788,213

Note:

* Reserves on other financial assets investment – This balance is due to the revaluation of our investment in unit trusts and was based on the market valuation as at the end of June 2011. These investments are revalued on a quarterly basis.

1.1 APNIC Reserve

The APNIC Reserve is diversified between Cash Investments, Managed Funds, and Property (APNIC Office). At the end of June, APNIC maintained \$7.0m in cash reserves, \$1.1m in managed fund investments and \$7.4m was invested in the APNIC Property. The following chart tracks the value and the allocation of these reserves over time:



2. Income Statement

2.1 Expenses

This report incorporates the year to date, budget and projected estimates. The Year to Date (YTD) actual figures are compared to the figures for the same period last year. The Forecast figures are based on forecast estimates of expenditure.

EXPENSES (AUD)	YTD Jun-11	YTD Jun-10	Variance %	**Forecast	Forecast Variation %	Budget 2011
Bank charges *	49,849	37,185	34.1%	99,720	13.3%	88,000
Communication expenses *	202,213	115,811	74.6%	479,279	12.1%	427,368
Computer expenses	204,162	179,067	14.0%	640,000	7.9%	593,415
Depreciation expense	418,155	356,958	17.1%	931,235	-8.3%	1,015,613
Sponsorship and Publicity expenses	97,984	90,084	8.8%	306,500	0.0%	306,500
Doubtful debt expenses *	137	0	152577.8%	21,855	285.0%	5,677
ICANN contract fee *	142,445	160,586	-11.3%	284,889	-11.5%	322,000
Insurance expense	60,478	60,206	0.5%	120,061	-8.1%	130,700
Meeting and training expenses	142,240	50,745	180.3%	407,667	7.0%	381,100
Membership fees	26,568	26,613	-0.2%	68,300	0.0%	68,300
Miscellaneous expenses	605	471	28.3%	1,050	0.0%	1,050
Office operating expenses *	156,356	88,188	77.3%	276,861	27.5%	217,195
Postage & delivery	16,091	16,162	-0.4%	34,000	0.0%	34,000
Printing & photocopy	13,455	11,950	12.6%	43,100	0.0%	43,100
Professional fees *	284,812	287,074	-0.8%	883,344	-0.2%	885,350
Recruitment expense	44,627	55,917	-20.2%	101,000	0.0%	101,000
Rent and outgoings *	0	319,582	-100.0%	0	-100.0%	418,923
Salaries and personnel expenses *	3,298,219	2,973,861	10.9%	7,350,000	-0.8%	7,406,255
Staff training/conference expenses	64,079	73,537	-12.9%	151,727	0.0%	151,727
Tax expense	0	0	0.0%	150,000	25.0%	120,000
Translation expenses	0	0	0.0%	15,000	0.0%	15,000
Travel expenses *	813,206	694,419	17.1%	1,732,484	15.3%	1,502,850
TOTAL EXPENSES	6,035,680	5,598,414	7.8%	14,098,072	-1.0%	14,235,123

2.2 Revenue

Revenue (AUD)	YTD Jun-11	YTD Jun-10	Variance %	**Forecast	Forecast Variation %	Budget 2011
Interest income	142,997	198,783	-28.1%	319,484	-3.2%	330,000
IP Resource application fees *	816,000	621,486	31.3%	1,363,934	20.9%	1,128,316
Membership fees *	6,270,115	4,511,671	39.0%	12,954,746	3.5%	12,511,220
Non-members fees *	92,663	69,136	34.0%	209,000	31.9%	158,506
Per Allocation fees	0	917,989	-100.0%	0	0.0%	0
Reactivation fees	13,800	13,800	0.0%	21,000	30.7%	16,063
Sundry income *	97,286	105,766	-8.0%	230,391	-21.9%	295,000
Foreign exchange gain/(loss)	(4,050)	21,276	-119.0%	(9,302)	0.0%	0
TOTAL REVENUE	7,428,811	6,459,907	15.0%	15,089,254	4.5%	14,439,105

2.3 Operating Profit/ Loss

REVENUE and EXPENSES (AUD)	YTD Jun-11	YTD Jun-10	Variance %	**Forecast	Forecast Variation %	Budget 2011
Total Revenue	7,428,811	6,459,907	15.0%	15,089,254	4.5%	14,439,105
Total Expenses	6,035,680	5,598,414	7.8%	14,098,072	-1.0%	14,235,123
OPERATING PROFIT/(LOSS)	1,393,131	861,492	61.7%	991,181		203,982

Notes:

2011 **Forecast

The forecast values in the Income statement are the projected estimates based on a review of actual expenditure as at the end of June combined with estimated future projections and known commitments.

The major factors causing the variance between the forecast and budget were as followed:

1. Revenue

- **IP Resource application fees** – The increase in allocations made to new members has been much greater than anticipated, contradicting our conservative approach in the budget submission.
- **Membership fees** – Membership fees continues to increase to reflect the full integration of the 2010 fee schedule, increase in allocations to new and existing members has also been higher than anticipated in the budget development.
- **Non-members fees** – Non-member fees increase to reflect the integration of the 2011 fee schedule from the beginning of the year.
- **Sundry income** – The majority of the budget is income here comes from the APNIC standalone meeting, and from income on investments. The KISA contribution for APNIC32 of \$111k is included in the forecast.

2. Expenses

Notes for some significant variance are as followed:-

- **Bank charges** – There is a general trend towards payment of APNIC fees via credit card facilities, resulting in increasing Merchant fee charges. Transactions continue to increase as membership grows.
- **Communication expenses** – There were a number of one-off costs in relation to the new facilities that were underestimated in the budget. Future expenditure is much more predictable.
- **Depreciation Expenses** – Final Capital Allowance and Depreciation figures for the new building provided by the Quantity surveyor or less than our budget estimates.
- **Doubtful debt expenses** – Audit advice has required a different treatment of these expenses.
- **ICANN contract fee** – APNIC's proportion of NRO expenses is lower than budgeted due to favourable exchange rates.
- **Office operating expenses** – Changes to land tax rates have had a significant effect here, electricity costs have been higher than anticipated, but have been addressed under a new agreement.
- **Professional fees** – A majority of expenses budgeted for consulting projects and the contribution for ISIF have not been incurred to date. Controlling of these costs remains a priority for the management team.
- **Rent and outgoings** – The lease commitment for the Milton office rent was fully expensed in 2010, no expenses will be incurred in 2011.
- **Salaries and personnel expenses** – Forecast estimates for Salary and Wages are lower than budgeted. There are a number of budgeted roles that remain vacant.
- **Travel expenses** – Travel for the first half the year is well above anticipated levels, this trend will continue into the second half of the year as demand for travel continues to increase.

3. Membership

3.1 Membership Statistics

At the end of June 2011, APNIC had a total of 2,763 members serving 52 economies. In June, the Extra Large tier increased by 2 to 20. The budget submission forecast 2773 members by the end of 2011.

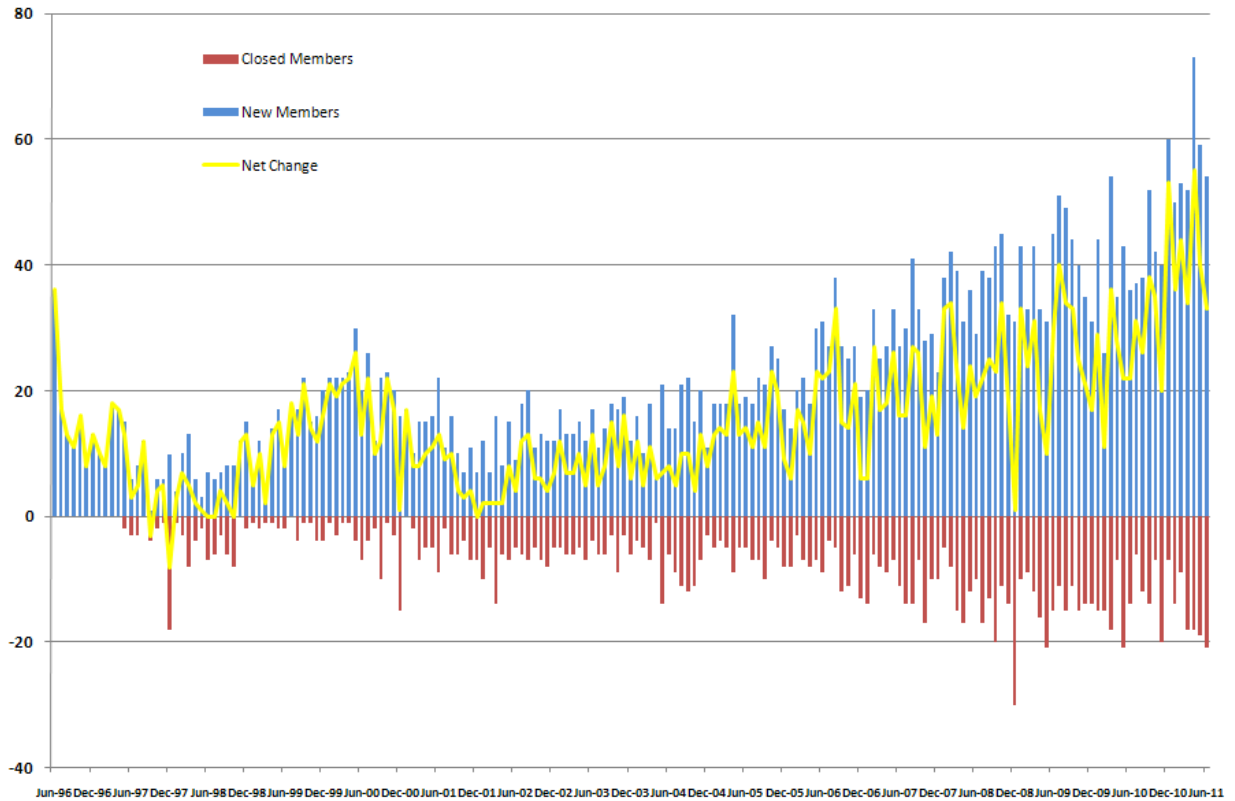
3.1.1 Membership by Category

The following table shows the monthly changes in membership and provides an analysis of APNIC's membership tiers. The majority of APNIC members remain in the Small membership tier.

Membership	Total May-11	New Jun-11	Reactivated Jun-11	(Closed) Jun-11	Size Change Jun-11	Total YTD Jun-11	Total YTD (%) Jun-11
Extra Large	18	0	0	0	2	20	1%
Very Large	37	0	0	0	(1)	36	1%
Large	144	0	0	(1)	0	143	5%
Medium	341	0	0	0	4	345	12%
Small	909	4	0	(6)	11	918	33%
Very Small	698	2	1	(2)	22	721	26%
Associate	583	46	1	(12)	(38)	580	21%
TOTAL	2730	52	2	(21)	0	2763	100%

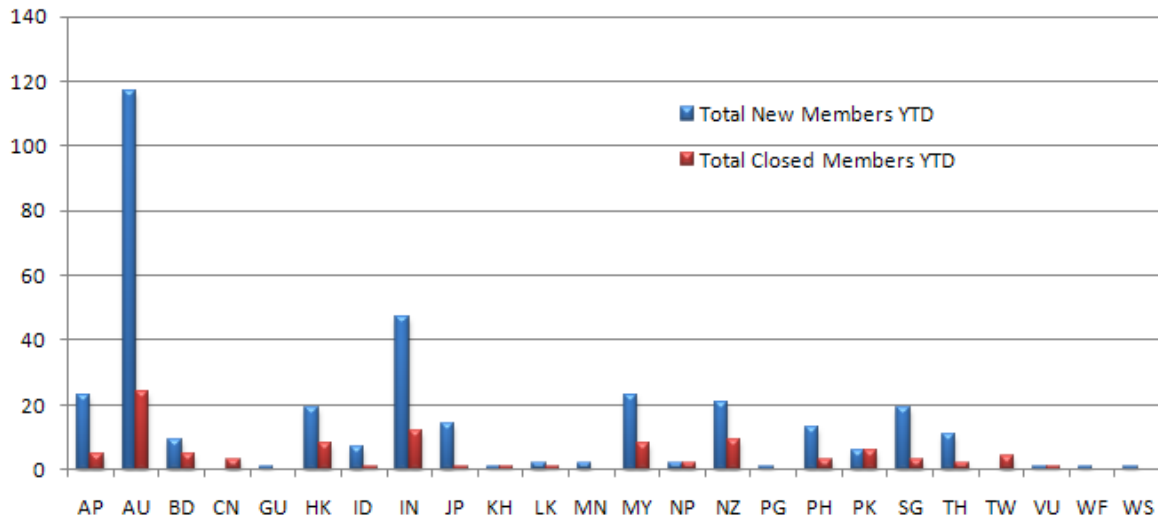
3.1.2 Membership Movement

The following graph illustrates APNIC membership monthly movements.



3.1.3 Year to Date Membership Movement by Economy

The graph below illustrates the year to date new and closed membership movement by economy. Australia has the highest number of both new and closed members, with 117 new and 24 closed members; followed by India.



2011 Budget Mid-Year Review

Executive Summary

This document provides further detail on APNIC budget performance and projects during 2011, as well as a preliminary indicative budget projection for 2012.

The 2011 budget submission was approved by the APNIC Executive Council in December 2010, subject to the Secretariat providing a mid-year review of the budget. The original budget submission included a number of assumptions that had the potential to significantly affect the year end position.

Those assumptions included:

1. Reduced membership growth due to IPv4 exhaustion and the implementation of last /8 policy implementation

Current Situation: Contrary to expectations, membership growth has accelerated in 2011, and continues strongly several months after IPv4 exhaustion.

2. Significant revenue impact of the formation of the India NIR

Current Situation: The India NIR is not yet established, and establishment at any realistic time before the end of 2011 would have negligible effect on 2011 revenues.

3. Ongoing cost of existing Lease Commitments at old premises (33 Park Rd)

Current Situation: Due to audit requirements, the full cost of these commitments were taken to account in 2010, and therefore not incurred in 2011.

4. Impact of Australian Taxation Offices review of the tax status

Current Situation: APNIC's taxation status has been restored, and provisional payments made by APNIC have been recovered in full.

After accounting for these factors it is forecast that the operating surplus will be significantly greater than anticipated in the preparation of the budget:

- The **Revenue** position will be significantly higher than anticipated in the budget submission. Membership Fees will be a higher as a result of strong membership growth, and increased resource allocations to existing and new members.
- **Expenses** have been reduced primarily because all costs related to the ongoing lease commitments in the old premises where accounted for in the 2010 year. Some of this saving has been offset by increases, as explained below.

This document also provides some early estimates of the Revenues and Expenses for the 2012 year; these estimates will be reviewed in a more comprehensive analysis for the formal budget submission later in the year.

Some key factors that are likely to affect APNIC's 2012 budget are:

- Minimal growth in the size of membership holdings of IPv4, as a result of the final /8 policy;
- Increases in some expenses associated with the likely introduction of the Carbon tax into the Australian Taxation system;
- Expenses of assumed increases in activity levels in many of our service and support activities;
- The revenue effect of any new NIRs.

Conclusion:

Although there are significant differences between the approved budget and forecast estimates, the differences are positive and will produce an increase in APNIC's operating surplus for the year. At the same time, expenses are being managed prudently in line with the budget and there is no proposal to increase them. Therefore no formal variation to the existing budget is requested, and Secretariat will continue to report against that budget for the rest of 2011.

Forecast Financial Position - Summary

Reporting Account	Forecast	Budget 2011	Variance	Budget 2012
IP Resource Application Fees	1,363,934	1,128,316	235,618	1,400,000
Interest Income	319,484	330,000	(10,516)	361,429
Membership Fee Income	12,954,746	12,511,220	443,526	13,448,631
Non-Member Fees	209,000	158,506	50,494	261,000
Reactivation Fees	21,000	16,063	4,937	15,000
Foreign Exchange Gain/Loss	(9,302)	-	(9,302)	-
Sundry Income	230,391	295,000	(64,609)	185,000
Total Revenue	15,089,253	14,439,105	650,148	15,671,060
Bank Charges	99,720	88,000	11,720	104,706
Communication Expenses	479,279	427,368	51,911	503,243
Computer Expenses	640,000	593,415	46,585	640,000
Depreciation Expense	931,235	1,015,613	(84,378)	1,015,613
Donation/Sponsorship	306,500	306,500	-	321,825
Doubtful Debts Expenses	21,855	5,677	16,178	5,677
ICANN Contract Fee	284,889	322,000	(37,111)	350,000
Insurance Expense	120,061	130,700	(10,639)	126,064
Meeting and Training Expenses	407,667	381,800	25,867	428,050
Membership Fees	68,300	68,300	-	75,000
Miscellaneous Expenses	1,050	1,050	-	2,500
Office Operating Expenses	276,861	217,195	59,666	278,895
Postage & Delivery	34,000	34,000	-	35,700
Printing & Photocopy	43,100	43,100	-	45,255
Professional Fees	883,344	885,350	(2,006)	925,000
Relocation Expense	101,000	101,000	-	106,050
Rent & Outgoings	-	418,923	(418,923)	-
Salaries, Wages & Oncosts	7,350,000	7,406,255	(56,255)	8,016,269
Staff Training/Conference	151,727	151,727	-	157,586
Tax Expense	150,000	120,000	30,000	150,000
Translation Expenses	15,000	15,000	-	17,500
Travel Expenses	1,732,484	1,502,850	229,634	1,819,108
Total Costs and Expenses	14,098,072	14,235,823	(137,751)	15,124,042
Total Surplus/(Defecit)	991,181	203,282	787,899	547,018

Revenue Outlook

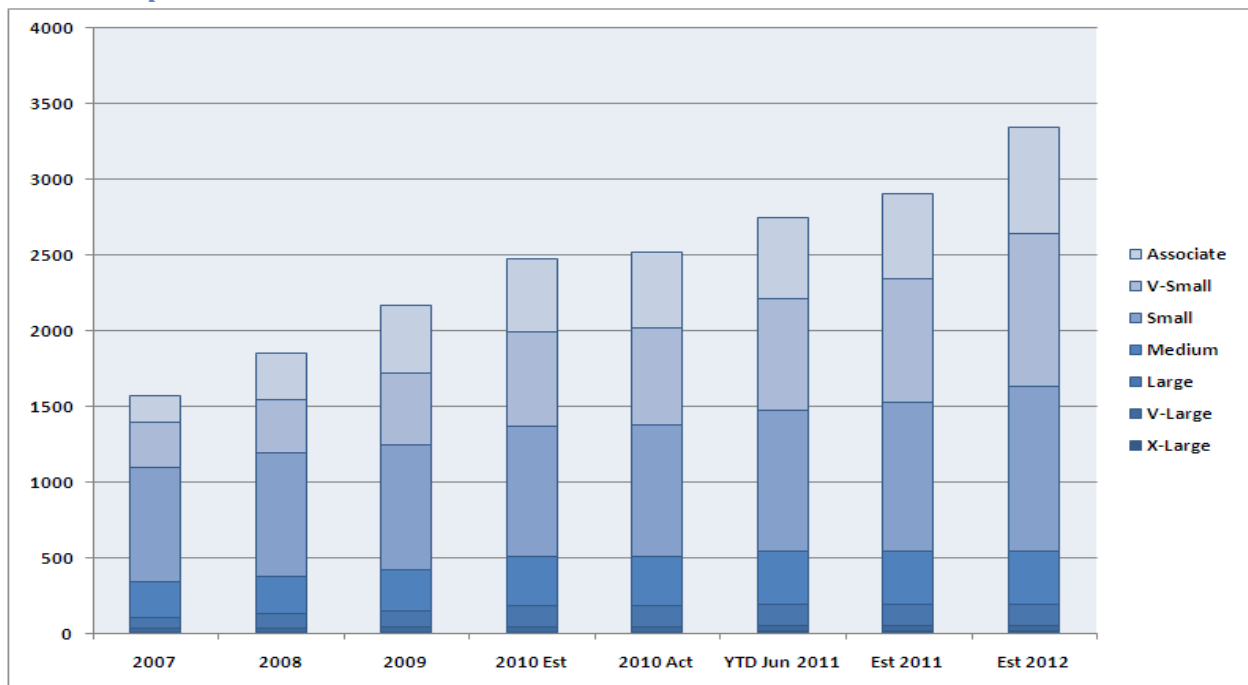
Revenue Forecast 2011

The revenue from membership fees is being maintained as the final effects of the 2010 fee schedule are brought to account. The major changes in revenue when compared to the budget are: membership fees will exceed budget by approximately **444k**, and IP resource application fees will exceed budget by around **236k**. These occur as a result of the growth in allocations to existing members since their last anniversary and increased growth in new memberships. **Whether the recent membership growth continues into 2012, or whether it is a result of the exhaustion of APNIC's IPv4 unallocated pool is difficult to determine at this time.**

Membership Growth

Within the 2011 budget submission it was anticipated that membership would reach 2,476 at the end of 2010, at the end of 2010 membership actually achieved 2,521. Membership growth in 2011 has continued to exceed expectations and by 30 June reached 2,763, already close to our year-end estimate of 2,773.

Membership trends 2007-2012



Change in revenue profile for New Members

For the 1145 current members who joined APNIC from January 2008 to December 2010, the average annual membership fee charged (based on latest resource holdings) is:

- Associate - \$669 (45 remain Associates)
- IPV4 - \$2,728 (1079 pay fees based on IPv4 allocations)
- IPV6 - \$1,645 (21 pay fees based on IPv6 allocations)

After the implementation of the final /8 policy the average fee for IPv4 and Ipv6 will be reduced to around \$1,587, so future annual fee revenues for new members will be reduced by around **42%**. The growth in holdings of existing members and the revenue associated with that increase will also be minimal.

Initial allocation fees should continue to grow in line with new membership as they are charged at a flat rate of \$3,500. As previously suggested to the EC, it is anticipated that pressure to reduce this fee may arise in future, due to the lower service costs associated with IPv4 allocations under the last /8 policy, and this possibility may be considered in future budget and/or fee structure reviews.

Other Revenue

Interest Income - Interest rates on deposits in Australia remain at above 6.0%, and there is little consensus among analysts regarding interest rate forecasts into 2012.

Non-Member Fees - The new Non-Member Fee schedule was implemented from 1 January 2011, by the end of this year all non-member accounts will have transitioned to the new fee schedule.

Other Income – For 2011 the KISA contribution toward APNIC 32 is included in Other Income (\$110k)

Revenue Forecast 2012

Although there has been a significant increases in the growth of membership, particularly leading up to stage 3 of the final /8 policy, this growth will have limited effect on APNIC's future revenue growth. Based on some early modeling it is expected that the Budget revenue will increase compared to forecast of nearly 4% in 2012, but the revenue growth outlook for future years will be very limited under the existing fee schedule. The estimates used in this model are based on 400 new members in 2012, compared with a likely growth in 2011 of over 500 members.

Expense Outlook

Expense Forecast 2011

Overall, the expenses outlook will not vary significantly from the original budget submission. The strong Australian dollar has had a positive effect on any expenses incurred in USD such as the ICANN contract fee (\$37k saving). The notes below identify where there are significant variations from Budget.

Rent & Outgoings

The budget submission included an expense of **\$418k** for costs related to the old lease premises in Park Road Milton. During the audit of the 2010 accounts we were required to take into account all our liabilities in relation to the old premises, and this was included in the 2010 financial report. This provision will therefore not be required for 2011.

Travel Expenses

Travel expenses continue to increase as new and existing APNIC staff are required to undertake more travel associated with an increasing range of outreach, events, trainings and meetings (+230k). **Travel expenses will therefore remain a focus of management review and control, and will be examined in more detail for the 2012 budget.**

Depreciation Expenses

The budget estimate for depreciation in 2011 did not account fully for the write down of office improvements taken to account in 2010. The timing of Capital Expenditure has also occurred later in the year than anticipated (-85k).

Office Operating Expenses

Changes to land tax rates and higher than anticipated electricity costs will result in Office expenditure being above budget by around 60k. There were also some stamp duty costs included relating to the lease surrender of the old premises.

Communication Expenses

There are a number of expenses in the beginning of the year in relation to setting up new network and telecommunication links in the new office. These expenses were once-off, and future costs for network charges are reasonably predictable. Allowance for VOIP and phone services was underestimated in the original budget submission. (+52k)

Computer Expenses

Computer expenses includes an allowance for \$60k for implementation of a new ERP system to more efficiently manage APNIC's resources. The final business case is being developed for this project which will move a large number of disparate applications onto a single platform. (+47k)

Meeting and Training Expenses

Meeting and training expenses will exceed budget in 2011, costs associated with the meeting in Hong Kong were higher than anticipated, cost for the meeting in Busan are at this stage in line with forecasts. (+25K)

Salary and Wages Expense

Salary and wages expenses will not achieve the budget predictions in 2011, primarily because a number of roles have remained vacant at times, and cost control in this area remains a focus for the management team. (-56k)

Expense Forecast 2012

The expenses forecast for 2012 are based on very simple assumptions and will need to be seen in this light. A thorough analysis of 2012 cost forecasts will be included in the 2012 budget submission.