# BLUEPRINT FOR THE ALLOCATION OF SINGLE CHARACTER DOMAIN NAMES

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## Executive Summary

ICANN is considering releasing for use all Single Character Domain Names. This paper speaks to a possible method for the initial and ongoing allocation of these Domain Names.

While it may not be a populist view to consider these Domains assets of ICANN, they are in fact exactly that. As such an Asset, I believe they should be used to further the goals of ICANN. In the case of these Domains, that would be mainly through the financial support of ICANN.

It is also important to note that the initial allocation of these Domains is critical. Given the expected value of these Domains, there will likely be very little turnover of them. It can be expected that these Domains will most likely never go through a deletion cycle.

I believe the proposal below will provide a secure and stable funding source for ICANN, something ICANN has been searching for over the past few years. It also provides for what I believe is a fair and balanced approach to the allocation of the domain names, while working as much as possible within the existing ICANN framework and policies. To do something extraordinary outside of the existing framework and policies would most likely doom the exercise to years of debate.

ICANN has been founded solidly on the basis of creating an open and competitive marketplace for domains. I believe that the marketplace for domains over the past few years has proven that auction is by far the fairest and most competitive way to allocate domains that are of value. I believe that the auction of these domains is in keeping with the goals and ideals of ICANN to ensure a vibrant market. It also will tend to ensure that the domains are put to use, as opposed to being bought simply as an asset for future value. Ultimately, it is this market that will determine the value of the Domains, not ICANN or any sole party.

I must also be clear from the outset that while I am currently the Vice-Chair of the Registrars Constituency of ICANN, these views are my own, and not that of the Constituency. While this has been discussed by various members of the Constituency over the past few years, the Constituency does not officially have a position at this time.

Below are the details of how I propose such an allocation of these domains be made.

## Background

First, a little background on how and where this thought process started. A few years ago, a group of Registrars met with ICANN staff in Washington DC. This meeting’s agenda was not about single letter domains, but the topic did come up and different issues were examined. It is from this that the basis for the ideas expressed here were born.

As previously mentioned, these ideas have been discussed and honed over the past few years. I look forward to the further discussion on them.

I do not take credit for all the ideas and methods expressed here, nor do I claim that this is the only or final solution. I simply mean to start the discussion down a path which will hopefully lead to a consensus conclusion in the shortest period of time.

## Types of Auctions

Auctions are typically seen as a fair and market driven way of establishing a value for a given asset. I believe in this case, that an auction method is the one that should be used to allocate the domain names.

Now one must examine the different types of auctions available that are widely used. There have been suggestions of using different types, and I believe in this case there is one type of auction that will work best.

But first, lets examine the different possibilities.

#### English Style

When one thinks of auctions, one typically thinks of the e-bay style of auction, more traditionally referred to as an English style auction. In this, two or more bidders take part and bid in ever increasing amounts for the asset. At an in person auction, timing is not critical, as everyone is able to bid in real time. The advent of the Internet has made popular a proxy style of this auction. Basically a bidder is able to put in his max bid, and then the systems will bid on his behalf up to that amount. It allows for an English auction to be held over a timeframe where all of the bidders are not present at the same time.

Today, all domains that are auctioned through the deleted marketplaces of various companies use this style of English Proxy Auctions. Pool.com, Snapnames and DomainJet have been using this style for many years and I believe it is widely understood by the domain community.

If ICANN were to choose this method, it should execute it in the following manner. It should put up for auction the right to choose what domain you want, and only auction one. The winner of the auction would be able to pick which domain they wanted. This would cause the bidders for a given domain to come closer to their true value for their domain, as there would be uncertainty as to which domain would be chosen.

For the allocation of subsequent domains, ICANN could hold regular auctions, but it would probably be smarter to simply allow any other party to purchase more domains at the price set by the auction.

For example, if the winning bid was 4 million dollars, the winning bidder would be allowed to pick the domain of their choice. For the next 30 days, any other person could come forward and pick a different domain for the same price. Given that the price has been fairly set by an open auction process, others would be given the chance to acquire domains at that same price.

This process could be repeated on a schedule until all the domains were allocated.

ICANN could select this type of auction, but I do not believe it would maximize the value of the domains if ICANN simply put them one by one up for auction.

#### Sealed Bid

Another type of auction is the sealed bid auction. One chooses a sealed bid type of auction when you have a mature auction marketplace. The challenge with a sealed bid auction is that it assumes the bidders have an good idea of what the value of the asset is.

One of the problems with a sealed bid auction is that they can be cumbersome to manage. Typically, it is a process similar to an RFP (Request for Proposal) that requires valuation. This can take time and many resources. For that reason, I would not suggest this type of auction be used.

#### Dutch Auctions

But I believe there is a different auction type that would be simpler and more efficient. It is a variant of the sealed bid auction. It also assumes that the bidders know the value of the domain name they are bidding on, which I believe is the case in the current domain marketplace.

The auction type I believe would be best is often referred to as a Dutch Auction. Basically, the domains would all be auctioned at the same time. The way a Dutch Auction works, is that you place an incredibly high value on the domains. Over time, this value decreases in published increments. At any time, a bidder can ring in and say they want to purchase the domain for that price. The first one to ring in is allocated the domain at that price.

For example, I would recommend starting a single domain at a value of $ 50 million dollars. I know this sounds absurd, but it is intended to be exactly that. The start value of a Dutch auction must be higher than anyone possibly would ever bid. More research would have to be done to ensure that $50 million is a high enough starting value. But one must be sure that whatever the value, it is much higher than the value of the domain.

Then, each day, the value of the domain would decrease. For example, if it started at 50 Million, each day it could decrease by 1 million until it hit 10 million dollars. Then it could decrease each day by $200,000 until it hit 5 million. Then it could decrease each day by $100,000 until 1 million, then down in smaller increments and so on.

What is important to ensure, is that the increments are small enough relative to the price, so that no landrush situation is ever created on the lowering of an increment.

In this manner, bidders must assess when they will purchase the domain and at which price. When a bidder is comfortable with the price, the domain is theirs if they are the first to say so.

The other advantage of this type of auction, is that it is almost impossible to game in any way. Issues such as technology failure, shill bidding and other auction gaming are eliminated. It also ensures the privacy of the bidders, as no bid is ever public, as only the first bid matters, that being the highest and the ultimate winner.

The beauty of this type of auction is in its simplicity. This type of auction is extremely easy to implement. One basically publishes a schedule of the prices, and then allows bidders to ring in when they want the domain at that price. There would be very little system development required, if any. In theory, it could even be handled by old technology such as the fax machine (ugh).

Although Dutch Auctions provide for the least possibility of gaming, the Auction provider must at all times be vigilant of bidders playing games with each other. For example, bidders must not be allowed to threaten or collude in an auction. I think most of us would agree that at a typical real world, live, real-time in person auction, this behavior would be dealt with immediately and effectively by the auctioneer simply disciplining the behavior. But that will not be the case with these auctions.

Given that these auctions do not occur in person, extra vigilance must be taken. For example, suppose a company called X desired to bid on X.com. If company X were to issue statements designed to intimidate other bidders, they should be immediately disqualified from the auction. I can easily see a situation where company X states they will sue anyone else who wins the domain. This tampering with an auction, while seemingly simply on the face of it, must not be allowed.

I believe that the Dutch Auction method as described here is the most efficient manner of allocation of these domain names.

## Financial

The goal of this allocation must be to provide ICANN with an ongoing revenue source.

I therefore propose that what is actually being bid on is the annual price of the domain. This is the price that would be paid by the Registrant each year to continue to renew the domain.

For example, if the winning bidder was to bid 4 million dollars for X.com, then their annual renewal price would be 4 million dollars.

Some will argue that this will keep the bids low. But I think it will be clear to most people, that over the long term, this method will provide the most funding to ICANN, as well as the annualized revenue that ICANN needs to ensure stability.

I also believe that most people will be surprised at the value these domains bring in annually. As you may know, I am the CEO of the Momentous.ca. One of the subsidiaries of Momentous.ca is Pool.com, which as you can imagine has a fair bit of expertise in Auctions and domain pricing. After discussion with various experts, I am confident to say that I believe there will be no domain that will be priced at lower than $100,000 per year.

I am sure that many will argue there should be no ongoing costs of these domains. But I believe they are mostly being self serving. These domains are different and unique. They should be treated as such. Until ICANN goes through the market driven process of allocation, it is unknown what the global value of a domain is. Self interested entities that argue for a one time fee are simply opportunists and do not have the continued success of ICANN in mind.

When one does the analysis of what a simple domain name is worth to build a new business on, the values one arrives at are surprisingly high. Imagine how many new businesses and ideas would love to have a single letter domain, not to mention the possible rebranding of existing ones. A domain name today is the single most important decision many online companies will initially make.

As to the costs to run an Auction of this magnitude, I am equally confident they will be minuscule if not absolutely nothing. I am confident that companies with experience in auctioning domain names, such as Snapnames and Pool.com will step forward and offer to perform these auctions at no cost to ICANN as a public service, as I believe this is in the best interest of the public good. My point here is simply that there should be almost no cost to ICANN to go through this process.

## Funding Allocation

I am confident there will be many different views on what to do with any funds that are raised. Some I have heard include:

* The funds should be used to offset Registrar fees to ICANN
* The funds should be used to create a foundation or trust to oversee the ongoing stability of the Internet
* The funds should go to the Registries and not ICANN.

I have spent considerable time thinking of many different possibilities. But they all boil down to the same thing: The funds should simply go to ICANN.

I also believe that if the Registrars can get together, and for the better public good, agree that all funds should go to ICANN, then the Registries should be able to as well. I see no reason that neither Registrars nor Registries need to benefit from this handful of domains.

Whether the funds are used to offset Registrar fees, or fund projects of stability doesn’t really matter. In the end, it is all the same pool of money.

We could spend considerable time figuring out formulas for how much each dollar reduces the Registrar fees, but in reality, the budget could just as easily increase as well. For example, if we spent a year bargaining that for each dollar raised, the Registrar fees were reduced by a dollar. For the sake or argument, assume that 20 million was raised each year from the allocation, and assume a 50 million dollar ICANN budget. The reality is simply that ICANN can increase its budget to 70 million at any time, and negate any savings to the Registrars.

So I propose to keep things simple. ICANN is going to, through its own methods and policies, determine what it desires to spend money on, and how much it needs each year. We should simply allocate any funds to ICANN in general, and let the budget process work. If ICANN desires to setup a trust or foundation, then it should do so, but that is a separate issue from how to allocate the domains.

## Structure

The structure of how to allocate these domains, and renew them annually has many issues. It must be simple, effective, and as much as possible, work within the ICANN framework.

It must also be fair and transparent.

What I suggest is fairly straight forward. I suggest that the Registrar Constituency create a new Non-Profit company and accredit it as an ICANN accredited Registrar. Who better to oversee a Registrar than the entire collective of all Registrars. This would ensure stability and openness, and that any one Registrar was not advantaged over another.

It would be this Registrar who would be responsible for the allocation and maintenance of all single letter domains. This Registrar would never contain domains other than these, and it’s sole mandate would be directed towards these domains.

I imagine the Constituency would simply pick an existing Registrar with expertise in Customer service to operate this Registrar. Mark Monitor, Network Solutions and GoDaddy come to mind. I am sure that one of them would step forward to operate this at no cost, as they all have large corporate departments that handle very valuable domains for their clients.

The simplicity of this structure, is that ICANN simply needs to instruct the Registries to allocate the domains to this new Registrar, where they will forever remain and be renewed. This ensures the proper renewal pricing is charged.

All funds brought into this Registrar would be given to ICANN as above. I see no reason the operation of this unique Registrar should cost anything.

Registrants of these domains would have to agree to not transfer the domains to a different Registrar.

On the subject of UDRP’s, any successful claimant could be transferred the domain as typical, but they would be responsible for the originally bid annual fee.

In this manner, all disputes can still be handled through the typical channels, be it UDRP or the courts. Rights holders may still claim what they wish, and the system will solve any disputes.

If a domain name were to not be renewed, this new Registrar would implement the bidding system again to determine the new Registrant. Practically speaking, these domains would never be deleted at the Registry, and would always be in use.

I expect that some communities of interest would rather bidders be pre-qualified in an attempt to limit their exposure to a high bid. I believe that would be the wrong approach to take and that the open market is the best way to allocate these names. There are many safeguards in place through the ICANN UDRP process, as well as the legal system, to ensure infringement and Bad Faith registrations do not occur. We must also remember that these domains have never been in use. I believe the very nature of an auction will, by its very design and market determination, prevent bad faith registrations. ICANN must be careful to not, at any time, be determining whom a bidder should be. Any attempted restriction of a bidders list is simply a means by some to rig the auction, and ensure that there is less competitive bidding, and should not be tolerated.

Disputes should be solved after the fact, and should not be designed to rig the auction or influence its outcome. We should not assume that only existing entities have sole rights to these new domains. I expect many new entities will be formed to take advantage of this new opportunity. To assume bad faith on the part of new entrants simply because they are new is not rational.

I leave it up to the policy experts and the lawyers to figure out exactly how to accomplish this, but I think the principles are pretty simple and straight forward.

## Conclusion

In conclusion, I believe that a Dutch Auction method should be used for the allocation of the domains, and that ICANN should move forward quickly to accomplish this.

The allocation of these domains does not need to be complicated nor take years of policy debate. Self interested parties must be viewed as such, and these domains must be allocated on a market driven basis for the betterment of ICANN and the global domain community.

I suspect there will be much discourse and shooting down of many different ideas on this subject. I welcome this debate, as it is through such debate that the ultimate solution will be found. I hope I have been able to start such a debate with these thoughts.

Ready … Aim … Fire.