Issues for Consideration on the new gTLD Auction Proceeds

The below outlines some of the inputs to consider in the development of a proposed charter for a Cross-Community Working Group.

Focus on Framework Development:

The goal of the CCWG is to deliver proposal(s) on the use of the gTLD Auction Proceeds that best benefits ICANN stakeholders. The primary stakeholders will include ICANN and its mission, gTLD registries who provided the funds and registrants who were sought to benefit from 'promoting competition, consumer trust, and consumer choice' (ICANN. (2009, September 30). *Affirmation of Commitments by the United States Department of Commerce and the Internet Corporation for Assigned Names and Numbers.* Retrieved from https://www.icann.org/resources/pages/affirmation-of-commitments-2009-09-30-en) and 'increased choice by facilitating competition among registry service providers' (ICANN, *Frequently Asked Questions*. Retrieved September 18, 2015 from http://newgtlds.icann.org/en/applicants/global-support/faqs/faqs-en). Other stakeholders include those defined in the European Framework for Quality Management (EFQM): "a person, group or organization that has a direct or indirect stake or interest in the organization because it can either affect the organization or be affected by it" (ICANN. (2015, July 22). *Charter – Enhancing ICANN Accountability.* Retrieved from https://community.icann.org/display/acctcrosscomm/Charter).

Intelligence Gathering/Expert involvement:

The draft report should be provided to either ICANN's existing Auditors, BDO or another similar firm to review and minimize the risk of implementing the recommendations without any implications on ICANN's not for profit status.

Exploring the applicability of existing work on Universal Acceptance and research from CCT-RT Committee from Nielson research should be evaluated for their insights into new gTLD metrics (see below).

Board Involvement:

The CCWG should determine the use of funds over a Board led effort on how the gTLD auction funds should best be utilized.

Conflicts of Interest:

The existing Conflicts of Interest Policy should be strictly adhered to.

Participation:

The model used for the CCWG-Stewardship and CCWG-Accountability employs a high level of participation and believe it would best serve the use of auction funds CCWG.

The process needs to be transparent and encourage global participation along with involvement from stakeholders who provided and expected to receive benefits from their funding while being consensus driven.

Linkage:

With $58.8 million in funds currently on hand and with the potential for additional funds to be received through auctions, utilizing the funds in a systematic, periodic method an evaluation of the results will undoubtedly become part of the plan. As such, performance metrics on the benefits received from each

activity undertaken should be reported on. Utilizing existing metrics on consumer awareness, perceived consumer choice, experience and trust of new gTLDs and the domain name system provided by the GNSO and ALAC should be reviewed for their application to the benefits received from the utilization of auction funds (66 of these were agreed upon in the IAG-CCT). A portion of the high priority metrics have already been assessed and reported upon by Nielsen research as part of the IAG-CCT. Proposing the utilization of existing metrics is not suggesting that new pertinent metrics also be contemplated.

Implementation:

The CCWG - gTLD Auction Proceeds Working Group needs to investigate the most effective use of current and future collection of funds that provides measurable benefits to stakeholders. The framework and principals along with the development and use of the auction proceeds should fall within the working group's mandate.

Considerations on the Use of Auction Proceeds:

Based on the points outlined on the "Discussion Paper on new gTLD Auction Proceeds", I would like to provide a few comments and suggestions on why I believe the auction proceeds should be used to benefit new gTLDs.

1. Registrants expected that the funds in auction would be used in one or in a combination of methods. These methods may/may not be valid today:
   - "Allocate funds to projects that are of interest to the greater Internet community such as grants to support new gTLD applications or registry operators from communities in subsequent gTLD rounds"
     - o There were only three applicants in the first gTLD round that requested Applicant Support – only one passed all three criteria (ICANN. (2013, March 2). *Applicant Support Program Update*. Retrieved from https://newgtlds.icann.org/en/applicants/candidate-support/sarp-results-12mar13-en.pdf).
   - The creation of a registry continuity fund for the protection of registrants (ensuring that funds would be in place to support the operation of a gTLD registry until a successor could be found)
     - o Each registry has calculated an EBERO amount with their application and provided a LOC
   - Reduction of application fees in future rounds
     - o Without considering cost efficiencies from the first application round, the application fee should be reduced by $26,950. This is due to the recovery of $13,475,000 of development funds included in the $185,000 application fee allocated over an expected volume of 500 (ICANN. (2009, October 2). *Update to the Cost Considerations of the new gTLD Program*. Retrieved from https://archive.icann.org/en/topics/new-gtlds/cost-considerations-04oct09-en.pdf).
   - Donations to charities and other organizations
     - o ICANN's mission is "to coordinate the global Internet's systems of unique identifiers" and its core values do not include funding of charities, trusts, gifts or donations

2. While other application fees that have been segregated into separate accounts and are to be considered separately, they should not be completely ignored as they could be used for example, to benefit applicants in a future round or be used if the Emergency Back-End Registry Operator (EBERO) funds are insufficient when a registry fails.
3. The more expedient funds are used to benefit current stakeholders may also reduce the funds needed for supporting failing gTLDs; thereby further benefiting ICANN and its stakeholders
4. Evaluation of how to utilize the auction proceeds should consider how the current new gTLDs are performing along with the related risks. Based on a very simplified analysis of just over 400 open and in general availability TLDs and extrapolating the volume annually with a price of 50% of retail (based on an average of multiple registrars), ignoring premium domain name revenues and including TLDs offering free names and/or heavily discounted registration prices results in the following:
   a. Quartile 1: Average daily registration volume of 258, yearly revenues of $2.23m (if you eliminate the top 10 TLDs, revenue declines to $1.2m; similarly, if you eliminate the top 25, revenue declines to $805k)
   b. Quartile 2: Average daily registration volume of 27 and yearly revenues of $236k
   c. Quartile 3: Average daily registration volume of 10 and yearly revenues of $84k
   d. Quartile 4: Average daily registration volume of 4 and yearly revenues of $67k (it is disproportionate due to the increased average price).
   e. Evaluation all of the TLDs are distributing them within four groups based on volume provides better insight than using average or median values
5. Applying minimized 'barebones' operational costs of $250k (ignoring the cost efficiencies of portfolio TLD organizations) to the registration revenues results in over 75% of new gTLDs operating at a loss. Again, this is a very simplified calculation used to highlight the need for the funds to benefit the new gTLD program. Ignoring the current data and implications would not only be risky but also fiscally irresponsible.

In conclusion, I am in support that the community determine the framework for how the CCWG should be developed and that the use of the new gTLD auction proceeds, both on hand and those received in the future, from the first round of new gTLDs, should be used to support gTLDs for the above mentioned reasons.

Regards,

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