

To: Karl S. Kronenberger

Date: 26 August 2017

Re: Request No. 20170727-1

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Thank you for your request for documentary information, dated 27 July 2017 (the Request), which was submitted through the Internet Corporation for Assigned Names and Numbers' (ICANN) Documentary Information Disclosure Policy (DIDP). For reference, a copy of your Request is attached to the email forwarding this Response.

### **Items Requested**

Your Request seeks the disclosure of documentary information related to portions of the presentation given by Cyrus Namazi, Vice President, Domain Name Services & Industry Engagement, Global Domains Division, during ICANN 59's cross-community session about the operational side of the ICANN operating plan and budget process titled "Operational Side of ICANN's OPS Plan and Budget". Specifically, you seek the disclosure of "all documents supporting or relating to [Mr.] Namazi's statement regarding predicted loss of accredited registrars over the next 12 months, including but not limited to any studies or reports conducted or reviewed by ICANN on this issue."

### **Response**

The cross-community session referenced in your Request (the ICANN59 Session) was intended to provide a dialogue between members of ICANN organization's operations and the community regarding the ICANN operating plan and budget process. (See [Transcript of the ICANN59 Session](#), 28 June 2017, Pgs. 1-2.) The session focused on three main topics: (1) the Public Technical Identifiers' (PTI) Budget and long-term planning; (2) the ICANN organization international engagement and operational strategy; and (3) the New gTLD Program and growth estimates and planning. (See *id.* at 2.) Mr. Namazi presented on the third topic. (See *id.* at ¶41.) A portion of Mr. Namazi's presentation discussed assumptions related to the gTLD marketplace that contribute to the revenue assumptions for ICANN organization's fiscal year planning. (See *id.* & [PowerPoint titled "ICANN gTLD Market Projections FY 2018"](#).) The following excerpt from the presentation is relevant to your Request.

CYRUS NAMAZI: [T]he operating budget for ICANN for FY18 was fixed at 142.8, and it was just a few days ago -- a few days ago was approved by our board. This is a 7.8% increase from the FY17 budget of 132.4. In the past four years or so, as you all likely know, ICANN has experienced a fairly rapid growth rate in our funding. An interesting point to bring out here is that I believe now we have reached what I call the cruising altitude and a steady state. I don't expect the ICANN funding to change materially going forward. All -- practically all of our

new gTLD contracts have been signed, and that means that -- and delegated which means that has effectively started their contribution of funding to ICANN. The chart that you see before you has four distinct buckets on it. What you see on the left-hand side with the color of blue is the contributions from transaction fees....

\* \* \* \*

[T]he fees that are paid by our registries is what you see on the top of the chart. Registries provide us with \$57.3 million of transaction fees. That's about 40% of our budget. There's a component of fixed fee, and this is the part that actually kicked in since the launch of the new gTLD program, and that's the \$30.8 million that you see.... The lower part of the chart is the fees that the registrars pay to ICANN. The 36.9 is from transaction fees that we just talked about. It's an annual fee of 18 cents per transaction, 26% of our budget. And then there is a component of fixed fees that the registrars pay. It's a combination of what we call application fees and accreditation fees. The accreditation fee is something that on an annual basis a registrar that's accredited by ICANN pays to ICANN. The application fee is something that a want-to-be registrar pays to ICANN to process their request for becoming accredited. And part of the reason that we actually highlight this here, and I speak to this more in subsequent slides, is that in the past 18 to 24 months we've seen a fairly significant increase in the number of requests for accreditation that is driven by a particular market model that is I think is called the drop-catching business.

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[I]n the registrar space, I talked about two components of fees that are paid to ICANN. One is the application fees. Traditionally within ICANN we have had on the average about 15 new accreditations per quarter. And every accreditation we charge actually \$4,500 to process that request and that application. Once a registrar is accredited, then there is an annual fee that they pay to ICANN for \$4,000. And then there is this per registrar variable fee that you see on this slide of \$3.4 million. This is actually a variable fee to the registrar. It's a fixed fee to ICANN. And I apologize for the complexity of this. It actually gets divided by the number of accredited registrars and then invoiced to them, again on a quarterly basis, but it's an annual fee. Part of the reason that we highlight and underline the application fees here is that we've seen a substantial growth in the number of requests for accreditation. I mentioned this earlier. So we have gone I believe from about 6, 700 accredited registrars three years ago to somewhere near, let me see, about 2,200 accreditations. And the contributions from these applications fee -- application fees and the accreditation fees is becoming somewhat material. Both in our budget projections as well

as in just the funding projections. So we're keeping a close eye on this particular piece as well.

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MICHELE NEYLON: We've got one question from remote from Kevin Murphy of Domain Incite...So Kevin is asking, why would the number of accredited registrars decrease by 750 in 2018?

CYRUS NAMAZI: ...Based on the market information that we have -- I think Michele touched on this -- the 3,000 accreditations that we have for registrars actually amounts to about 400 distinct registrar entities. And again, to Michele's point, this means that there are actually three entities with hundreds of accreditations. Now, one would ask, why would an entity want to have hundreds of accreditations? The primary reason behind having multiple accreditations is the way -- and Michele might actually be able to describe this better than me -- is a particular access to what's called a batch pool of a registry, to be able to have access to the domains that are actually being dropped from -- from registration. If you have multiple accreditations, then you get multiple inputs into this pool and that increases the likelihood of being able to find a name that is actually of value to someone. And my understanding is that these registrars actually have this business model of being able to tap into this available pool of names that's coming up for renewal and then be able to find buyers for them to connect them to their desired name. Now, from the -- the model that we have, I believe at the moment that the total available market for these sought-after domains that these multi-family registrars are after is not able to withstand the thousands of accreditations that are there. Each accreditation costs quite a bit of money. There's just \$4,000 you have to pay to ICANN a year, there's the \$4,500 accreditation fee. So if you add that -- all of that up and then you add up the total available market for these good names that are being -- being searched for, we think that the market is probably gone sort of beyond what the available -- available market is. So we expect the accreditations to drop to a more sustainable level. At the moment our projection is a drop of 750.

(See [Transcript of the ICANN59 Session](#), 28 June 2017, Pgs. 41-44, 47-48, 50-51 & [PowerPoint titled "ICANN gTLD Market Projections FY 2018"](#).)

The FY18 Operating Plan & Budget sets forth the focus of efforts and organizational commitments for the current fiscal year. Consistent with ICANN's multistakeholder model, the Operating Plan & Budget is the result of input from ICANN constituency groups, stakeholders, the Board of Directors and ICANN organization. (See ICANN Planning Process web page, <https://www.icann.org/resources/pages/governance/planning-en>.) The annual

Operating Plan & Budget is derived from the [Five-Year Operating Plan](#) and [Strategic Plan](#), which are part of ICANN's [Planning Process](#). (See *id.*) The FY18 Operating Plan & Budget was approved by the ICANN Board on 24 June 2017 and became effective on 22 July 2017 in accordance with Section 22.5(a)(vi) of the ICANN Bylaws. (See [Resolution 2017.06.24.16.](#))

The FY18 Operating Plan & Budget estimates, among other things, a total operations funding for ICANN organization of US\$142.8 million. (See [FY18 Operating Plan & Budget](#), Pg. 11.) As Mr. Namazi explained during his presentation, ICANN's operations funding is driven mainly by two components: (1) the number of transactions for annual domain name registrations, and (2) the annual fixed fees collected from the parties (registries and registrars) under contract with ICANN. (See [Transcript of the ICANN59 Session](#), 28 June 2017, Pgs. 41-44, 47-48 & [PowerPoint titled "ICANN gTLD Market Projections FY 2018"](#); see also, [Transcript of FY16 Q4 Quarterly Stakeholder Call](#), 18 Aug. 2016, Pg. 23; [Recording of "ICANN Board: FY18 ICANN & IANA Op Plan & Budget Review Session"](#), 12 March 2017, at 0:40:00 – 0:44:45.) The fees from the number of transactions for annual domain name registrations are collected from registrants through registries and registrars, and represent approximately 66% of ICANN organization's funding. (See [Transcript of the ICANN59 Session](#), 28 June 2017, Pgs. 41-44, 47-48 & [PowerPoint titled "ICANN gTLD Market Projections FY 2018"](#); see also, [Recording of "ICANN Board: FY18 ICANN & IANA Op Plan & Budget Review Session"](#), 12 March 2017, at 0:40:00 – 0:44:45.) The number of annual fixed fees collected from registries and registrars under contract with ICANN organization account for approximately 32% of ICANN organization's funding. (See *id.*)

Xavier Calvez, ICANN organization's Chief Financial Officer, discussed the underlying volume of transactions and underlying number of contracted parties assumed in the FY18 Budget for these drivers during the ICANN58 session titled "ICANN Board: FY18 ICANN & IANA Op Plan & Budget Review". (See [Recording of "ICANN Board: FY18 ICANN & IANA Op Plan & Budget Review Session"](#), 12 March 2017, at 0:40:00 – 0:44:45.) Mr. Calvez noted, among other things, that the FY18 budgeted funding accounted for 2,241 registrar accreditations, which assumes a reduction in the number of registrars that are accredited with ICANN by 25% beginning at the end of first quarter of FY18. (See *id.* at 0:41:20-0:44:45; see also, [Transcript of the ICANN59 Session](#), 28 June 2017, Pgs. 41-44, 47-48, 50 & [PowerPoint titled "ICANN gTLD Market Projections FY 2018"](#).)

Both Messrs. Namazi and Calvez explained that the budgeted reduction reflects ICANN organization's conservative budgeting approach based on the fact that the number of registrars has grown in recent years with many accreditations resulting from a small number of registrar families that have obtained hundreds of new accreditations mainly for drop-catching opportunities. It is assumed that some of these registrars might be terminated by those operators due to a reduced economic benefit resulting from a possible oversubscription in registrar accreditations for the drop-catching opportunities. (See , [Recording of "ICANN Board: FY18 ICANN & IANA Op Plan & Budget Review Session"](#), 12 March 2017, at 0:41:20-0:44:45; (See [Transcript of the ICANN59 Session](#),

28 June 2017, Pgs. 41-44, 47-48, 50-51 & [PowerPoint titled “ICANN gTLD Market Projections FY 2018”](#).)

This assumption is consistent with ICANN’s conservative approach in its funding assumptions for prior fiscal years. It should also be considered as an assumption for conservative budgeting purposes rather than a prediction of market dynamics. It is due, in part, to the lack of visibility into the number of registrars that may seek accreditation in the future as well as the available market size of the drop-catching opportunity. Thus, ICANN organization does not account for a funding source for which it does not have visibility. For example, in both the FY16 and FY17 Budgets, ICANN budgeted a conservative estimate in the number of registrar accreditations despite a surge in the number of actual accreditations each year. ICANN’s adopted FY16 Operating Plan & Budget assumed 60 new registrar accreditation applications. (See [FY16 Operating Plan & Budget](#), Pg. 10.) Similarly, the FY17 Operating Plan & Budget assumed a conservative number of 40 new registrar accreditation applications and a reduction in the number of accredited registrars from 2,105 to 1,595. (See [FY17 Operating Plan & Budget](#), Pg. 14; see also, Recording of “[Budget Working Group](#)”, 8 Nov. 2016, at 0:40:50 – 0:55:03.) ICANN organization previously explained why it budgeted a reduction of 500 registrar accreditations during a Budget Working Group session at ICANN 57. ICANN organization noted that based on its conservative approach to market trends, there are not enough domains available to accommodate this increase in accreditation, and that it believed that in FY17 the registrar accreditations will revert to a normal level, resulting in a decrease of about 500 accreditations. (See [Recording of “Budget Working Group”](#), 8 November 2016, at 0:55:06 – 0:56:50.)

Your Request seeks the disclosure of all documents supporting or relating to Mr. Namazi’s statement regarding the predicted loss of accredited registrars in the FY18 Budget. The documents responsive to this Request have been identified above. These documents include the following:

- [Recording of “ICANN Board: FY18 ICANN & IANA Op Plan & Budget Review Session”](#), 12 March 2017
- [Transcript of the ICANN59 Session](#), 28 June 2017 & [PowerPoint titled “ICANN gTLD Market Projections FY 2018”](#)
- [FY16 Operating Plan & Budget](#)
- [FY17 Operating Plan & Budget](#)
- [FY18 Operating Plan & Budget](#)
- Recording of “[Budget Working Group](#)”, 8 Nov. 2016

To the extent that there are any other documents that may be responsive to this Request, these materials are subject to the following DIDP Defined Conditions of Nondisclosure and are therefore not appropriate for public disclosure:

- Internal information that, if disclosed, would or would be likely to compromise the integrity of ICANN's deliberative and decision-making process by inhibiting the

candid exchange of ideas and communications, including internal documents, memoranda, and other similar communications to or from ICANN Directors, ICANN Directors' Advisors, ICANN staff, ICANN consultants, ICANN contractors, and ICANN agents.

- Information exchanged, prepared for, or derived from the deliberative and decision-making process between ICANN, its constituents, and/or other entities with which ICANN cooperates that, if disclosed, would or would be likely to compromise the integrity of the deliberative and decision-making process between and among ICANN, its constituents, and/or other entities with which ICANN cooperates by inhibiting the candid exchange of ideas and communications.
- Information provided to ICANN by a party that, if disclosed, would or would be likely to materially prejudice the commercial interests, financial interests, and/or competitive position of such party or was provided to ICANN pursuant to a nondisclosure agreement or nondisclosure provision within an agreement.
- Drafts of all correspondence, reports, documents, agreements, contracts, emails, or any other forms of communication.

Notwithstanding the applicable Defined Conditions of Nondisclosure identified in this Response, ICANN also evaluated the documents subject to these conditions to determine if the public interest in disclosing them outweighs the harm that may be caused by such disclosure. ICANN has determined that there are no circumstances for which the public interest in disclosing the information outweighs the harm that may be caused by the requested disclosure.

### **About DIDP**

ICANN's DIDP is limited to requests for documentary information already in existence within ICANN that is not publicly available. In addition, the DIDP sets forth Defined Conditions of Nondisclosure. To review a copy of the DIDP, please see <http://www.icann.org/en/about/transparency/didp>. ICANN makes every effort to be as responsive as possible to the entirety of your Request. As part of its accountability and transparency commitments, ICANN continually strives to provide as much information to the community as is reasonable. We encourage you to sign up for an account at ICANN.org, through which you can receive daily updates regarding postings to the portions of ICANN's website that are of interest. We hope this information is helpful. If you have any further inquiries, please forward them to [didp@icann.org](mailto:didp@icann.org).