ICANN80 | PF – GDS-SubPro IRT Work Session (1 of 3)
Monday, June 10, 2024 – 9:00 to 10:15 KGL

LARS HOFFMANN: Good morning, everyone. We're almost at the top of the hour. I think we're going to start a minute or two late. I mean, Chris will take at least a minute or two to sit down.

UNIDENTIFIED MALE: A quick comment. The random host has now produced orange lanyards only to match Chris's jacket.

LARS HOFFMANN: All right, it's a minute past the hour. I suggest we start if we can begin the recording, please.

ELISA BUSETTO: Hi, everyone and welcome to meeting number 47 of the Subsequent Procedures Implementation Review Team on 10 June 2024 at 700 UTC, 9:00 a.m. local time. My name is Elisa Busetto, and I'm the participation manager for this session. Please note that this session is being recorded and is governed by the ICANN Expected Standards of Behavior.

If you would like to speak during this session, please raise your hand in Zoom and when called upon, virtual participants will be given permission to unmute. On-site participants will use a physical microphone to speak. Please state your name for the record and speak at a reasonable pace. And with that, I will hand the floor over to Lars.

LARS HOFFMANN: Thank you, Elisa. I'm not sure what happened with that slide there, the disco effect. So we'll see. I hope that's just a one-off on one slide. It seems strange. In any case, hi, everyone. Welcome to Kigali, a wonderful place, which I was surprised, positively surprised by. I've never been here. Beautiful. Let's hope we can say the same about the three IRT sessions that we're going to have this week. We're starting off today with a very easy, light topic. We're going to talk about the application fees. So I guess, we're going to finish early.

I'm going to go through a couple of standard slides first. It does not like these slides. Is there anything you can do, guys? Are these in the Zoom room? Oh, yeah. If you connect to the Zoom room, any chance until we fix that, maybe? Anyway, I'm going to go through the first slides. This is just the IRT slides. I don't know what to do. I'm going to stop sharing. Who wants to see that? IRT stats. We're still on track. We held 48 meetings. I think we're just over halfway through now.

The project health is still marked as green. We have a lot of topics coming up in this meeting and also, over the next few months. And I think, Elisa, if I'm right, we're going to publish a new updated, I should say, implementation plan that lays out the next steps and topics and the public comment periods during this week. We're just waiting for the board resolutions to be published that were passed on the weekend, so we can fill that into the implementation plan as well.

The topics and outputs, we still have 10 recommendations that have been not adopted here on our slide. The board did make a resolve on the weekend, so we'll update that as soon as that is published. And the topic status has also slightly moved. We have 18 topics currently that we are working on internally that we have not shared a draft with. The others, we've either have shared a draft or, in fact, they've gone through public comment, who are ready for public comment. Should I try again to throw it up? I'm sharing. And seemingly, these slides are fine.

Well, we'll see. We're going to have a different deck in a moment. We'll see whether it works then. So we're going to talk. With that, I'm sure you are happy about the intro. The main part here, the application fee or the aviation fee, I should maybe say. I'm going to change deck here and see how that works out. Not great by the look of it. Marika, could you send me that as a PowerPoint? Sorry, guys.

UNIDENTIFIED MALE: Good morning, Lars. May I ask you, please, to speak in the microphone because on the Zoom we hear you very low. Thank you.

LARS HOFFMANN: All right, give me one second. Where did you put it? With me? Okay, let me see how that works. Yeah, [inaudible] for Marika.

MARIKA KONINGS: All right, I'll just start talking and fill some time while Lars sorts out the slides. I know this is a topic I think everyone has been waiting to hear about, so glad everyone is here in the room as well as remote. We do have quite a bit of information to cover in the slides. So I would really like to ask everyone to hold your questions until the end of the slide deck. We'll have time. Xavier is here as well with me for any of the detailed financial questions that for sure you will have. So we can definitely go back to any slide people want to look at or have questions about, but we think we may address some of your questions going through the slide deck.

Also, want to note, this is the first conversation we're having. The idea is to also carve out time during our Thursday session to allow for any questions that may have come up or questions that we may not be able to address here, to come back to those, and as well as you had time to reflect on the information we're sharing here. And of course, if after Thursday there's more time needed, obviously, we can make time available for that as well during the IRT sessions following this ICANN meeting.

I also wanted to mention that we have also reviewed this information with the board during the workshop this weekend and I think Becky will try as well to make this session, but I know she had a conflict. And they agreed that having this conversation with the IRT at this point would be helpful to also help further inform their conversation and a final determination on the fee level.

LARS HOFFMANN: Marika, one second. Guys, could you do me a favor? I would like to share the screen but can we switch the big screen off so that people can see in the Zoom room without the disco in the background? Thank you so much.

MARIKA KONINGS: All right. So please, do all log into the Zoom room if you want to see the slides and follow along. For those just joining, we're having some technical issues with the screen up there, so it's difficult to see. But Lars will have them up there.

LARS HOFFMANN: Yeah, give me one second.

MARIKA KONINGS: Yeah.

LARS HOFFMANN: All right. Are we good there on the context slide?

MARIKA KONINGS: Yeah, we're good. Good to go. So if we first take a step back to the original policy recommendations that are the basis of the work that we've undertaken, which is that the gTLD evaluation fee is set to recover the costs associated with the new gTLD program. So this basically means that we need to recover the costs that are in relation to the implementation of the program which are basically fixed costs and the processing costs, which are only partially fixed with a large variable component.

New gTLD applications will also subsidize a part of the Applicant Support Program. Similar to 2012, there are also evaluations that can be chosen by applicants or the so-called elective evaluations such as Community Priority Evaluation or CPE. Like in 2012, these will be charged separately to applicants that are choosing these evaluations and the cost for these will be established at a later stage. But of course, before the application window opens, so the applicants know what to expect.

It is important to note that the work that is associated with implementing those elective evaluations such as CPE is part of the implementation costs, and we're mainly referring to kind of third party costs, evaluation costs and the processing costs related to these elective evaluations. We can go to the next slide.

So this gives you an idea of what is covered as part of the gTLD evaluation fee and what are the specific evaluations that are covered in that. And as well, those that are excluded. Maybe just worth mentioning here that in the conditional part, you'll see kind of a mention of occupancy fee. That's something we would like to discuss with you all at some point. The idea is that it would be applied to applications that have completed all there is to complete but either do not move on to the next round because they do not choose to do so or they don't withdraw, and basically just sit there and linger.

As you know, the 2012 round is in effect still running 12 years later which I think is something we would like to try and avoid as much as possible for the next round. So that might be an incentive for either people to kind of move on to the next stage or withdraw their application because there's a cost associated with just sitting there. Because again, ICANN will need to keep resources on standby to deal with those applications once they decide that it's time to move on.

Also important to note that you will not see technical evaluation here as that is now covered through the Registry Service Provider Evaluation Program or RSP that we've already discussed with you on a number of occasions as well. If we go to the next slide, please.

But I think everyone may recognize as the biggest risk for the program is the uncertainty about the number of applications that will be received. I think most of you know that the ODA made an assumption of 2,000 applications similar to the number that was received during the 2012 round. But if a significantly lower number would be received, this would represent a significant financial risk for ICANN from the perspective of the sunk already paid costs that could not be recuperated. Again, the flexible costs there's ability to adjust and course correct and some of those costs are of course not incurred if there's no work to be done. But the sunk costs will have already been made at that time.

At the same time, we need to find a balance with the height of the gTLD evaluation fee as the more conservative we would be in our assumptions, the higher the fee would turn out to be which in effect would create a new risk by setting the fee at a level that it would no longer be considered attractive or prohibitive. So to mitigate this risk we've created various scenarios that we'll be sharing with you on the next slide that give you as well as what we've shared with the ICANN board some insight into the deficit that could occur if less than the anticipated number of applications are received.

So in these models we've already applied a conservative approach in relation to the implementation costs which are, as said before, the sunk costs. We will have spent that money before we even receive a single application by dividing those costs over a thousand applications for all the scenarios that we've modeled. But at the same time, we're also proposing a credit to applicants immediately after the close of the application window if more than the 70 million of implementation costs has been collected and we basically have an access. Because again, we don't have an interest in collecting access funds here, but we're also trying to mitigate against the risk.

In addition, as part of the planning work we're doing to get ready for the kind of rollout and specifically the processing phase, we're also putting a lot of emphasis on establishing a minimum capability at the start of the processing phase, but with plans in place to immediately ramp up if the number of applications is significantly higher. We believe that this is a way to keep the costs as low as possible and this is, for example, also the guiding principle for how we're setting up the processing flow and order of evaluations as well as the building of the application system. And again, I think it's something we'll come back to you shortly with more details.

So basically looking at, are there any aspects that can wait until we know the actual volume so we know the actual work that is involved and not unnecessarily spend time and resources on work that may not be needed or is not necessary in light of the volume of applications that is received. If we can go to the next slide, please.

So what does this modeling look like in practice? So you can see at this table the different scenarios that we've modeled based on the level of applications received. So this is 500,000, 1,500, 2,000. Obviously, we could do this as well at the granular level but we thought this was a good starting point. As mentioned, as a risk mitigation approach, you'll see that the cost for each scenario to cover implementation is identical. This is on the conservative assumption that 1,000 applications will recover the implementation costs, which as previously mentioned are sunk costs.

So the other costs for evaluations, processing, program support, et cetera are to a large degree flexible and linked to the number of applications that are received although there is also a portion of those costs that's also expected to be fixed. Based on our modeling, you can see at the bottom of the table the expected deficit or access that can be expected if that number of applications is received at that set price point.

For example, if the fee would be set at 240,000 and we receive 1,000 applications, we would break even. We'll go in a bit more detail on the next slide on this, but there you'll be able to see what happens if we do not receive those 1,000 applications at that price point. As previously mentioned, if there would be a scenario with access for example, 15 applications received with a fee of 220,000, that would be a credit of 23,000 in case of receipt of 1,500 applications and a credit of 35,000 in case of 2,000 applications that are received.

It's very important to note, and we'll go more in detail in that as well, that there are currently two place holders that could result in additional charges on top of the range that we're displaying here namely in relation to the IDN variant subsidy and NCAP2. And as I said, we'll have some more details on that in the next slide.

So based on these scenarios, you can see that the current range of the gTLD evaluation fee is between 208,000 and 293,000 plus the place holders, don't forget. And through further conversations with the IRT and the board, we're expecting to confirm the level of risk ICANN is willing to take and the level of confidence that may exist in relation to the number of applications that are received. But unless anyone has a crystal ball, the risk may be the most important factor that we'll be looking at here. If we go to the next slide please.

And Xavier, will take over in a second as he's probably better positioned to speak to this slide. But this slide basically shows the deficit access for the 1,000, 1,500 and 2,000 scenarios when less or more applications are received than modeled. We'll also model the 500 scenario but hopefully, this will give you an idea of the potential risk that is involved. So for example, if we set the fee at 220,000 expecting 1,500 applications and we only receive 500, there will be a deficit of 71 million that's not recuperated. Xavier, do you want to jump in here or…?

XAVIER CALVEZ: Sure, thank you. Can you go back to the previous slide, please? So just for clarity, the darker blue lines on this slide, all those numbers are in millions. Marika was mentioning thousands but it's actually millions. So if I take the example of the 220,000 evaluation fee and we would receive 1,000 applications that would be a deficit of 22 million for the organization to cover. So coming back to the next slide.

Thank you. So this is simply a graphical representation of the same information. You can see that it's not very accurate on the diagram like this. But about 1,250 or 1,300 applications under an assumption of a $220,000 fee would be the number of applications where the program is approximately balanced. Above that, if I look at for example 1,500 applications received at that level of fee, there would be an excess of approximately $35 million. It's logical that it's 35 million because we are making the assumption in those fees that it takes 1,000 applications to recover the $70 million of implementation costs.

If we receive 500 applications more, then we recover 500 applications worth of the implementation cost coverage which is $35 million dollars. Under that premise, we would then organize a credit to the applicants for the equivalent of that $35 million because of course, at the end of the day of the application window, we know how many applications we have received and therefore this is not an unknown anymore. And therefore, this is not a risk anymore and therefore, we can “throw up” the application fees, so that the excess that would have been collected based on the number of applications can now be credited back to the applicants.

So that's the intent that we have because of course, again, the risk prior to the application window of the unknown number of applications at the end of the application window is now not anymore a risk. We know. You can proceed, Marika.

MARIKA KONINGS: Thanks, Xavier. If we can go to the next slide, please. So the next two slides provide you with a bit further detail on the categories that you saw on slide five that make up the gTLD evaluation fee. You saw on the table before the numbers and they align with the numbers here on the next two slides. As previously noted in relation to the implementation costs, these are modeled on the thousand applications to make sure that we cover those sunk costs. It doesn't necessarily equate to the breakeven point that was shared on the previous slides, but as I said this relates to the recuperation of the implementation costs that are equally modeled for all of the scenarios.

For the evaluations, I think as you're aware, many of the evaluations are expected to be performed by outside vendors and we're still of course, in that process of identifying vendors and having those conversations. This is expected to be a mix of fixed and variable costs for the estimates that we've taken for that. We've factored in the inflation rate – again, looking at 2012, evaluations that were identical there applying the 44 percent inflation rate and looking as well at the experience we've gained, the staff research that has been done in the meantime, the lessons learned. Obviously, there's some new evaluations for which we've made assumptions that are included there.

Category three is the quality assurance objections and options. These are also planned to be performed by outside vendors. Again, expected to be a mix of fixed and variable costs. Also, kind of doing the modeling on the 2012 figures for those, the contracted rates then, the staff research knowledge and lessons learned. Jeff, I see your question. We're coming to that shortly as well where the inflation rate comes from. If we go to the next slide, please.

Processing Program Support, so this is the costs that are associated with personnel, ICANN staff support and contractors for the processing and program support phase. And the external costs that are involved for vendors that are not involved in the evaluations but in supporting the processing. And travel and meetings that may be associated with that. These are also a mix of fixed and variable. Again, we've made some assumptions here on kind of what is needed for the different scenarios.

And again, we'll have plans in place as well to scale up if further applications are received.

Number five is org shared support. This is basically ICANN org ongoing internal services that support all programs, but which are not directly attributable to the program or projects, basically overhead, like infrastructure.

And then number six, risk contingency. This is currently set at the same rate as in the 2012 round, which is 30 percent, which is to deal with hard to predict costs, legal fees and litigation, duration of the program. As mentioned, we still have the new gTLD program from 2012 running. Vendor pricing, of course we've made assumptions, but we haven't started negotiations yet, so we don't have certainty on whether our assumptions and estimates are correct. Emergency back-end registry operator needs and of course, if we don't get the volume of applications that's also a risk that's assumed in that. If you go to the next slide, please.

So as mentioned, there are a couple of placeholders that could result in additional charges for applicants recognizing that the cost recovery nature of the board and these issues are still currently in front of the ICANN board. So that's why they've even been included here as placeholders. We don't know at this stage whether or not the board will adopt either the policy recommendations or the advice that has been provided on these topics. And until that time we have not included those estimates in here and for some of them we don't have them yet.

So first of all, that is NCAP2. That is currently going through the advice consideration process for which ICANN org is undertaking a more detailed analysis to be able to provide the board with information on the expected impact and resources needed to implement those recommendations should the board decide to accept the exec advice. To just give you an idea of the effort that is expected to take, I thought it might be helpful to include the input from ICANN org contribution to the draft report which indicated that basically this is not expected to be a trivial exercise but as said, we're doing further analysis on the final report because I do believe updates have been made. But we want to make sure that potential applicants understand that there may be additional charges that will need to be added to the gTLD evaluation fee to implement those recommendations should the board decide to accept those.

It's maybe also worth mentioning that as the separate recommendation related to this topic is structured in such a way that the 2012 way of dealing with NCAP is expected to be implemented unless the board decides on a different framework. The cost for doing the same as in 2012 are already factored in as part of the gTLD evaluation fee. So if the board would decide not to adopt those recommendations, we have foreseen doing the work as was done in 2012. Go to the next slide please.

So IDN variants is a set of recommendations as part of a set of recommendations that's currently under consideration by the ICANN board as part of the IDN EPDP phase one report in relation to variants and how applications for up to four variants should be free, which basically means that due to the cost recovery nature of the program, that these would need to be subsidized by other applicants. Sarmad and his team have done some research and modeling which has allowed us to develop an estimate for this noting that the assumption is that up to 50 variant applications would be received from up to 30 different applicants. If there is interest, we can definitely schedule a separate conversation about these assumptions and the underlying research. But for this conversation it may be sufficient to indicate that as technically each variant is considered a string they will need to go through all the string related evaluations apart from the IDN variant review which is already carried out for the principal string for all the variants.

And for 2012 applicants, this would also include the applicant related evaluations. For new applicants, this would be covered through the fee they would have paid for the principal evaluation. So taking the cost that we've also used for the gTLD evaluation fee, this would result in a total subsidy of 3.4 million on that assumption of 50 variants from up to 30 different applicants. That depending on the scenario that we end up with could result in either an additional charge of $1,700 to almost $7,000 additional.

Again this is under consideration with the ICANN board and then we've shared this information with them as well for that consideration. Obviously, here the risk factor is that these are assumptions we're making. If we suddenly get a much larger number of variant applications, of course, the cost would be substantially higher. We did sneak in here a kind of other category, but I think this is merely to convey that there's still some other topics in front of the board namely the GNSO supplemental recommendations. And I think although at the moment we do not expect a significant impact on the efforts of implementations, of course depending on the outcome and the direction that the board eventually provides, there could be additional work involved. But as I said, from at least what we've seen so far, that doesn't seem the case but we know that there's still further conversations happening and particularly one of the recommendations I think the singular-plural issue. If we go to the next slide please.

So an obvious question may be how does the current situation compare to 2012? So this slide aims to provide a bit of further insight into that and kind of the additional cost and effort but as well the cost savings that we've been able to make based on experience gained. As noted, an important component is the inflation factor and I think we have a next slide that we'll talk a little bit more about how we got to that number. But basically, based on our calculations by the time of the opening of the vacation window, we expect an inflation percentage of 44 percent compared to 2012.

So that's obviously a significant increase in costs. There are also a number of additional evaluations as well as increased complexity of previous evaluations. I think I mentioned already CPE where we're at least doing quite a bit more work on investigating how that can be done in an efficient and predictable way. There's also an increased focus on promoting diversity of applicants through the ASP program as well as the addition of IDN variants. But there are also a number of elements that are resulting in savings and efficiencies, such as distinguishing between applicant and string related evaluations. Applicant evaluation should only be carried out once and not like in 2012 for every application.

As mentioned before, technical evaluation is now carried out through a separate program, RSP, which also means it's only done once per RSP and not per string which was also the case in 2012. The continuing operations instrument or COI has been removed and of course we've had more planning opportunity and are able to benefit from the 2012 experience what worked well and what didn't to factor that in as we set up the program. I think if we go to the next slide. I think that's where the inflation slide is. So I don't know, Xavier if you want to cover this one on the inflation percentage and how that was calculated.

XAVIER CALVEZ: Very quickly it's a fairly straightforward calculation of the inflation between 2012 and 2026 using the US CPI information, consumer price index information. The reason why we use the US one is because most of our costs are in US dollars and compounding each of those rates of inflation leads to 44 percent. Jeff Neuman was making a comment in the chat, which I also answered. I provided the website that we use and provided the information there. Thank you.

MARIKA KONINGS: Thanks, Xavier. If we go to the next slide, please. So what does this look like in the graphic? We've created this example with the model for the 1500 applications at 20,000. Of course, this will look different for the other scenarios, but hopefully, this will still be helpful illustration. So on the left-hand side, you see the 2012 application fee, which was set at 185,000, and then read the costs that are in addition, most notably cost of inflation. And in green, the reductions or efficiencies created that would result in a fee of 220,000 for the 1500 application scenario.

Again, important to remember that this does not include the placeholder mentioned here. We did create a little red box in the middle, but there could be additional red boxes that would need to be added to address those two elements. As said, in this specific scenario, and you're purely looking at this, the fee would be 20 percent lower than 2012. But as said, of course, for the other models, this may look different. In some cases, it may be higher. In other cases, it might be even lower, depending on the price point set and the assumption on the number of applications received. Can we go to the next slide?

So what is next? Of course, I think first of all, we would like to address any clarifying questions you may have, as well as feedback that you may have on the different scenarios that we've shared, and specifically looking at kind of the confidence in a number of applications, as well as the risk ICANN org should be willing to assume in relation to the program. As noted at the start of the meeting, we'll have a further opportunity to discuss this on Thursday, as well as any additional IRT meetings that may be needed. We'll take any feedback that the IRT has back to the board, where we'll also continue our conversations, and we're expecting the board to give us further guidance on the risk that they are willing, ICANN to assume in this regard.

And once that has all happened and we're able to settle on the fee, we'll of course draft the language for the AGB that goes with this, which would also get then included in the next cycle of public comments together with the other AGB sections that will go out. There's also further work that we still need to undertake related to this topic in relation to the refund schedule, cost of the conditional evaluations, as well as a plan for access and shortage, as per the policy recommendations. And I think that's all I have, so Lars if you want to manage the queue.

LARS HOFFMANN: Yeah, I'll manage the queue. I suggest, since I suspect everybody is in the Zoom room, even those in the room here. No? Yes. It’s a no. Jonathan, any chance you could lock in? It's much easier. We have 67 people in there. It's otherwise a bit difficult to handle. At the moment, I have just one hand up. So is anybody in the room who's not in Zoom who wants to get in the queue? No. Otherwise, I will slot you in to then, if you raise your hand, into the last hand in the Zoom room, if that makes sense. With that, in an equally traditional fashion, Jeff Neuman with the first question.

JEFF NEUMAN: Yeah, thanks. And sorry, I can't be there with you. This is the first meeting, in-person meeting since 2010 I haven’t been at. Travel didn't make sense for me for a variety of reasons. Anyway, so the inflation rate is—I'll provide the stats that I saw, and that's one thing. But it would seem to me that you can manipulate these fees pretty much however you want to come up with an outcome.

For example, if you were to go back to slide 14, I guess, the last slide, you didn't start at a zero price and then try to figure out the cost of each component. You just assumed to start at 185 as opposed to starting where budgets normally do at zero. But even that, if you took the 185,000 and at that point subtracted all the efficiencies, 6.7, 26.8, 17.9, and then the 45.7, and then you take that number and apply the 44 percent inflation in the new items, you would end up with a very different, much lower number than you do right now. But by applying the 44 percent to everything and then not taking away the 44 percent when you're talking about the efficiencies, it's just not really the best way to do it.

The other thing, what I don't see here is a breakdown of what you're doing to establish a contingency fee. Are you just slapping a 30 percent or whatever it was from the last time? Which again, should be lower because the risks are known. You haven't accessed this time. You can count on certain things that were cost against that for the 2012 round not applying this time around because you've learned your lesson.

But I would be strongly interested in if you took the 185, subtract it all the efficiencies, and only at that point take the inflation rate and see what number you get because that's a much more logical way to do it because you've already upped it by 44 percent, but you haven't included that in the efficiencies. So I look forward to a much larger breakdown to see what the costs are and it would be a great exercise to actually start from zero instead of 185 because at the end of the day, the 185 still ended up with a fairly large excess. Thanks.

LARS HOFFMANN: Thank you, Jeff. I'm going to pass on to Xavier. Just one observation I think on the green bits. Xavier, you can correct me on that as well. But Jeff, according to your math, you'd have to then take the 44 percent of the inflation off the right as well, right? These are today's prices. So if you want to distract that, take that off from 2012 prices, you would have to have lower numbers in the green because the 44 percent would have to come off that before you take it off the 185. But maybe that's not quite right either. Xavier?

XAVIER CALVEZ: Thank you. So the inflation numbers are straight directly from the website that I provided, so it's very simple. There's no manipulation there. There's a big confusion in your assumption, Jeff, which is, we haven't determined the fees on the basis of the 185. This is just to slide to provide a hopefully useful comparison between the fee – A, an assumption of the fee here to the 185. But we didn't calculate the fee that we're proposing just by starting the 185, throwing in a few variances and coming up with a fee that way.

Of course, it's zero-based, trying to use your expression. We're looking at all the costs that we think we're going to incur, and then that's the result of the fee. So this slide should not lead anyone to think that this is how we calculated the proposed fee. This is just an analysis for understanding purposes and explanation purposes of what are the major variances with the fee last time. But that's not how we calculated the fee, of course. Second point, I don't know if everyone understood the point that Jeff was making, is that, it appears on this slide that we are only applying the inflation factor to gross up the 185, and as a result, ignoring, in quotes, the inflation factor to the efficiencies.

So the green boxes that are appearing on this slide are also corrected for inflation, Jeff. As a result of which, inflation is taken into account across all these factors, not just to gross up the fee of the 185. And therefore, when we're taking out 26.8 thousand in this slide as an illustration, it is the grossed-up factor for inflation as well. So it's apples to apples from that perspective.

LARS HOFFMANN: Thank you, Xavier. Just checking if there's any hands in the room who are not in Zoom. It does not seem to be the case. I have from the queue Sebastien and then Susan.

SEBASTIEN DUCOS: Thank you, Lars. This is Sebastien Ducos for GoDaddy Registry. And having just seen those figures, this is my own personal take on them. First of all, thank you for providing the figures. I had been asking for those for months, and it's very important to have them. Obviously, nobody was going to be happy with any figure above zero, so you're here with what you were sort of expecting.

Xavier, I picked up already a year and a half ago, or even more whenever the ODA was published. The fact that you were doing calculation both ways. Indeed, that you were calculating from the bottom up what the cost would be, and then sort of double-checking yourself with the inflation and seeing if it's still met and the same thing. I think, it’s a completely rational exercise.

I think also that because we don't get to see the first exercise, the bottom one, and I don't want to be doing your work, but I'd love to see the result of it. It's very hard for us to evaluate what things are. I think that it would be a good exercise, because compared to 2012, whilst we kept a lot of things, there's a lot of things that dramatically changed.

For example, when I hear you saying a variant is still a TLD to be evaluated, yes and yes and no, because there's a lot of things that are going to be common in that application, and there's a few things that are going to be moving parts, a few technical things that are going to be moving parts. Again, you say that the technical part is completely separate here, and I was part of the discussions on the RSP fees. We’d like to know exactly also how that is divided to better understand.

My model has been ready for a number of years. This is not an ICANN exercise to the world. This is an exercise that we really need to do. And particularly, bringing maybe the topic to myself, but to the RSPs and other providers that are going to be playing with you and working with you in order to develop that. So I'd love to get to see a bit more details on it.

On this idea of setting a fee today and reimbursing in case we have more applications, this is all fine but it's not that realistic in the world in the sense that for small applicants that will have single gTLDs, that's going to make a difference. But we don't see that as being the next generation. For brands, for big [inaudible] that are going to apply for this, the hard part is getting that first budget. To a certain extent, even returning money is a pain because it's not budget that they're going to be able to use and et cetera.

So don't forget that, make sure that you have that fee really as low as possible. I don't know what the figures were of the previous round. I'm sure that I could find that. What was the surplus after the exercise. But that needs to also be taken into account because every dollar that we're going to have to pay and convince people to pay to get into this program is going to be applicants that are not going to come on board.

Sorry, I need to put my glasses. The last point and I know I'm going to get the same answer but I want it on the record for this discussion too. The last point I made already for the RSPs evaluation is, you're calculating everything on the hypothesis that in 2026 you're going to have a number of applicants. We developed here a program that is iterative. None of these investments are just for 2026. They're for 2026 and I assume, because this is how it works in IT world for a period of about five years. Please let's evaluate that in that way.

And I know that we can't make the future and I know that you can't have assurances that you're going to have it a third and so on round, but let's evaluate. And maybe the discussion is also what happens in 2026. And once we've covered what happens after, I don't love the discussion because it's going to probably set the number of people to say, "Well then, I'll wait for that first one and I'll go in 2027 and 2028 whenever it has. I think it's important also to share what I think is here with the community at least and then we'll see how we share that with the rest of the world. Thank you.

LARS HOFFMANN: Thank you. Is anyone going to respond to Sebastien?

MARIKA KONINGS: Yeah. This is Marika. Maybe just to mention on variants and we can definitely schedule a separate conversation on that because we did really go into the details of what is needed for each application. And indeed of course we're making some assumptions but again, we do have – definitely not me but we do have some experts on staff in relation to IDN. So we did go in some details. I'll put this slide back up as well because I think some people asked for more detail and kind of what goes into each of the categories.

As noted, there are a couple of slides as well that kind of detail what is covered there. I also want to be very clear, because of course, especially on the buckets of evaluations, QA, objections, auctions, those are still vendors that we need to contract with. So we do not want to kind of publicly share what we're assuming or estimating to give away our competitive advantage here to have those conversations. But I do want to assure everyone as well.

We've gone through a great deal of planning, really bottom-up planning to figure out what is needed to take this through. Of course, we do have some information experience on what is going into ASP and RSP because some of the evaluations are the same there. Again, this is not just, let's throw a number at the wall and hope it sticks. A lot of thought has gone into this. But at the same time, I think we do also want to be careful on kind of publicizing those details too much because again, that may make it even harder for us to potentially get some of this down through negotiations.

LARS HOFFMANN: Thanks, Marika. Susan?

SUSAN PAYNE: And again, I'd just like to echo the thanks. Obviously, there's a lot to digest here. And I'm sure most of us haven't been able to really do that on the [inaudible] yet. I'm not sure if you said, or maybe you can expand on what the sort of next steps is in terms of narrowing down what this fee might actually be because obviously a range of 208,000 to 293,000 is a huge range at the moment, so sort of what is your thinking about where you'll land in the range or what is it that needs to be done first before you're in a position to narrow that down.

And I guess a lot of us in the room would probably be thinking it should be inevitably on the kind of lower end of that range, taking into account things that Sebastien has just mentioned, like the fact that it's not intended to be a one-off, and so this cost recovery, the costs of the implementation are being fully recovered here in this first round, and arguably, it maybe need to be some balancing, so perhaps there is a bit of a shortfall in this first window, but that gets picked back up in future windows so that maybe all the costs of the implementation haven't been covered in the first window, but would be covered across the program. But I'm really just interested in knowing more about when and how you think you'll be able to firm up the figure.

MARIKA KONINGS: Yeah. Thanks, Susan. So as noted, we also previewed this with the board, and there I think our initial thinking was, can we settle on one, but I think the board, and maybe going to the next slide, Lars, kind of looking at the risks involved here as well, I think wanted to take a little bit more time as well to kind of digest this. And again, this is a conversation not only for org or the board, but I think this is also why we're having this conversation with the IRT. What confidence level do we have on the number of applications that will be received, and the risk we're willing to take on the deficit that may occur, because again, the program is expected to be cost recovery. If you don't recover those costs, it cannot be spent elsewhere basically.

And I think in relation to kind of recovering these on future rounds, I think that's not how we read the recommendations, so I think it's cost recovery for the next round, so that's what we're applying here. Obviously, there are recommendations to have a next round, in a more limited timeframe compared to the previous one, but we don't have any guarantees on that either, or that the cost will be recovered in next round. So again, we're basically modeling this on what we understand the policy recommendations to be, but again, we're planning to take the feedback from the IRT back to the board and continue the conversation with them.

I think we do have in our plan to settle this at the latest, I think, September for public comment, and then kind of October final. I think that's what we're working towards, so that is definitely the goal. We hope, at least here by providing a range, this already gives a good indication of where it's going to land somewhere. But it seems that we need to have a bit further conversations in this consideration of what is the risk, and kind of I'm happy to hear if people are really confident in saying, yes, for sure, I believe we'll get those 2,000 applications and that is a fair assumption to make for the modeling or is the level of confidence more towards the 500 range, and we should be more conservative, because again, these are funds that we then would not recuperate.

LARS HOFFMANN: Thanks, Marika. I think Xavier also wanted to jump in quickly. And then very quickly, Edmon asked in the chat whether non-IRT members can speak? Absolutely, yes. This is an open session, so anybody can raise their hand and ask a question. Xavier?

XAVIER CALVEZ: Thank you. About the point of amortization, or as Sebastien and Susan were referring to, the point of absorbing the costs of the program not only over this round, but over what happens after. To Marika's point, there's an assumption that the next round is a round and that's what we've quantified. If we would want to determine, and I'll come back to that point, the potential usage of the work that will have been carried out for this next round in the future, then we need to also quantify the effort and costs of what it will take to then set an ongoing possibility of application, because we haven't done that yet. We don't have, in this cost estimate, the cost of setting up an ongoing application process.

We would need to do that and add that to the costs, and then add the potential future number of applications after the next round, here, the one of 2026, and add that as the potential need, and be able then to say this many costs, current round or next round, plus cost of organizing an ongoing process of application, and compare that to the next round's applications and future applications. That's a lot of unknown. I don't mean to be overly technical, but from a purely accounting standpoint, amortize—and I think Sebastien was mentioning five years, that's also what I would use mentally as, for example, a system. You would amortize it over five years.

I'm making the assumption that this next round will last at least five years before another set of application processes are being put in place. It's speculative, I understand. It's arguable, I understand, but that's exactly the point, it's completely unknown. As a result of which, I'm assuming that they would not be sufficiently early after 2026. The possibility to recover the cost of the 2026 round. Now, I'm happy to model that. We can discuss it, but by the way, I would expect the scope of costs associated with that to be relatively minimal, a fraction of the 70 million as an illustration.

But for that, there's a lot of unknown to uncover, which is what would be the cost of setting up an ongoing process of application and running that ongoing process of application and of course, knowing the number of applications or modeling the number of applications that would be received both in this next round and after that. It's sufficiently unknown for the next round. After that, it's even more unknown. Relative to the risk factor, and just reminding everyone of what Jeff was pointing out, which is very logical and straightforward, we now know more than before, which is absolutely true, of course.

In the waterfall diagram that we showed earlier, we have tried to have a very rough estimation of what the benefit of that experience is. Not trying to be facetious, but the knowledge that we have today is that the risks that we thought there would be have actually materialized. So what we know now, there will be risks.

The two main factors of risk that were unknown at the time of launching the 2012 round that have consumed costs in the 2012 round are one, the length of the program. It was assumed to be three years. We're now at 12. And we don't yet know when it will finish, this round. We are still consuming costs of applications for the 2012 round today. So the round is not finished, which is why I was answering Jeff's point in the chat, that we don't know if we're going to have an excess for the 2012 round yet.

The second factor that has consumed costs in terms of risk from the 2012 round are challenges on application strings, legal matters, IRPs. We now know that this will—or let me rephrase, we now know from the 2012 round that this happens. There's only confirmation as a result that this will happen again in the next round, but we don't know how much. This is where the risk factor in the fee comes into cover for those costs.

So when we say we know a lot more, therefore, there's a lot less risks. I say true to a certain extent, and we also know a lot more that we will have risks materializing that we need to be able to cover. And of course, there is the unknown unknowns, which is what are the new things that will come up as a result of new factors into this round versus the previous round.

For example, the name collision approach, what will it trigger in terms of unknown factors? That's an illustration of an uncertainty. So having said that, to conclude on the risk factor, we're still working on it. We would love to have it lower than it currently is assumed to be, but I want everyone to understand the knowledge of the 2012 round only confirms that we need to have a risk factor in the fee. Thank you.

LARS HOFFMANN: Thank you, Xavier. I'm just going to go to the queue quickly. I had to have Edmon, Jeffrey, Susan, Sebastien and Maarten. Over to Edmon first. Sorry, Edmon. I just looked at the time as I handed over to you. We've got 15 minutes. We can probably eat a little bit into the break, but please try. I know it's a big topic. We plan, in fact, also to come back to this on Thursday if we can, so try to keep it as concise as you can. Thanks. And that goes for the answers as well, guys.

EDMON CHUNG: We'll try. So Edmon here, and speaking personally, I just want to add one thing that, as this new gTLD goes into the implementation part, I have been recusing myself from the board discussion on this. So this is on a personal level. So I think the—I raised my hand because of the terminology of IDN's subsidy is really quite unfortunate and greatly unsatisfactory. I hope we do not use that terminology again. IDN variants are necessary for the security and stability of the DNS. It is contemplated from the very beginning all the way back to the early 2000s as a technology design choice at IETF that deferred the handling of IDN variants, especially as IDN TLDs to ICANN. Let's not phrase it as IDN subsidy. I think it's really bad because it's an issue not so different than capital A and small letters.

This is a security and stability issue that we need to deal with. And statistics shows consistently that one out of 20 people typing in the TLDs would land in a variant TLD. It's necessary for the functioning. And purely on accounting standpoint, if you look at it, then what about geo-TLD subsidy? What about brand TLD subsidy? If you look at the costs for those, I'm sure, especially if you look at the last round, maybe brand TLDs were pretty expensive in terms of processing as well. So just want to say let's not use IDN subsidy.

LARS HOFFMANN: Yes. Marika, please.

MARIKA KONINGS: Yeah. Thanks, Edmon. I'm definitely not questioning the value of variants in any shape or form. Indeed, we're just using that for the purpose of this conversation because the policy recommendations specifically say those applicants should be able to apply for free. And as a cost recovery, the money needs to come from somewhere else. And of course, some of the others that you mentioned, brand exemptions, we expect to charge separately as well. Of course, some of the other evaluations are assumed across because, again, some of those are not elective. But maybe the result of either objections or other considerations. But definitely understand, as I said, we're just using that more for the kind of financial part of the conversation. Those costs need to be recuperated from somewhere, and we can think about a better term to use. But yeah, your point is taken. Thanks.

LARS HOFFMANN: Thank you, Marika. Jeff, please.

JEFF NEUMAN: Yeah, thanks. Sorry, real quick.

LARS HOFFMANN: Jeff, sorry. I'm sorry, Jeff. You're [inaudible] quite bad. Can you try again? Otherwise, I may go to Sebastien and come back to you if you can reconnect. Try again, please.

JEFF NEUMAN: Okay. How about now?

LARS HOFFMANN: No.

JEFF NEUMAN: Is that still bad?

LARS HOFFMANN: Come back in and I go to Sebastien in the meantime.

JEFF NEUMAN: Back in.

LARS HOFFMANN: Sebastian?

SEBASTIEN DUCOS: Yeah. Thank you, Lars. Sebastien Ducos, because I still have a personal point here. I think that you raised a point here about the steady state or where and when we get to this. Let's not forget that technically a gTLD, a TLD in general is just another domain. It's another domain with other responsibilities and whatever. We're making something enormous of it. But outside of this world, it's just another domain. So let's, in our heads, please not start stacking the amount of things that are going to be needed into getting into a steady state.

Let's in our head, work as hard as possible to get to that steady state as quickly as possible. I don't know. We haven't discussed this. What will be those triggers to get into it? But let's not reinvent. I saw in the chat that we're already five years and ten years, but we can't do that. Otherwise, this thing is just not usable on the market. It's going to be usable every now and then for those that indeed want to have a generic string outside and that's a fine market or whatever.

But again, with the assumption that there's going to be brands and that's what we want to bring in this next round, we need to change that frame of mind. It can't be that hard to get in. It can't take that long to get in. Otherwise, we don't have a product. Otherwise, a generic existing TLD name works just as fine. Thank you.

LARS HOFFMANN: Thanks, Sebastian. It was a statement. I didn't think any reactions. Marika, Xavier?

XAVIER CALVEZ: Just quickly to say I'm not making any assumptions of whether it should be difficult or not. It's simply we haven't assessed that.

LARS HOFFMANN: Thank you. Jeff, you're back in. Give it a go.

JEFF NEUMAN: Yeah. Can you guys hear me now? I think it might just be an issue with the room.

LARS HOFFMANN: Ah. Hang on, Jeff, for a second. Is the audio here?

XAVIER CALVEZ: Yeah, we understand it. Jeff is well heard in the Zoom room but in the physical room, the room is –

LARS HOFFMANN: Yeah, in the physical room, we can't hear. We're working on it. Jeff, I'm going to—I think he's dialed back out again. Maarten, I'm going to go to you. I think he's in the room.

MAARTEN SIMON: Thanks. No, Lars, I'm remote. So just looking at slide six here, one of the things that gets me a little bit agitated the way that this is presented is the scale starts from 500.

LARS HOFFMANN: Maarten, I'm going to interrupt you with the same issue. It seems to me that the Zoom. Sorry, Maarten, it seems that the Zoom audio in the room has dropped, so we can't really hear you. We know actually Zoom users can. Give us just a second. Sorry about this, guys. Okay. I'm going to read Jeff's question out. Jeff, thank you for typing that. Jeff asks, what is the contingency fee percentage? What is the rationale for a change for brand exemption? And is it simply the provision of an SMD filing along with the application? Jeff, Marika's going to answer.

MARIKA KONINGS: Yeah, thanks. This is Marika. So the risk contingency is at 30 percent, same as in 2012. The rationale is this is an exemption that's being asked, additional work is being done, and it doesn't seem fair to have other applicants pay for that. That doesn't mean that there's going to be an enormous fee that is going to be charged where we'll look at the actual work involved. Yes, a file will need to be sent, but there's also a review that needs to be done. I don't know if external lawyers are involved.

Again, we're really going to look at what that really takes, and it doesn't mean that that is suddenly a 50,000 additional charge. So I just want to reassure you there, but there's certain special treatment, more or less, that is being asked where additional work needs to be done, and as such, they have been labeled as the conditional evaluations.

LARS HOFFMANN: Jeff is following up here, Marika. With what additional work? He states that it is no different than the gTLD that supplies the letter of non-objection?

MARIKA KONINGS: We need to look at that, but again, there is review involved. If in the end of the day it turns out that there's zero cost involved, zero effort, the cost will be zero. But I don't think that's the case based on my experience from last time around. We'll come back to those costs.

LARS HOFFMANN: Thanks, Marika. Maarten, can I read that question out there, Maarten? The scale of application starts from 500. This is too low based on the 2000 assumption. I would prefer to see a scale from 1,500 to 2,500, where breakeven is at 1,500 or 2,000. Xavier?

XAVIER CALVEZ: Thank you. So I agree, Maarten, on the point that we're not assuming that it would be 500. This is a what-if analysis. This is about a risk understanding of, while we are all assuming it will be 2,000, what if it is not? And that's what this is trying to do. I completely appreciate your point that we can also show a 2,500 scenario in those models, and we will do that so that it helps that understanding to your point.

And we want the fee to be the lowest possible. This is simply trying to say, if the number is lower, what are the implications, and how do we try to mitigate that factor? And this is why we are looking at the approach of grossing up the fee to help cover for the cost of the program if we would have a lower number of applications.

But to immediately correct that fee and credit back the applicants once we know what that number of application is, because this is an uncertainty that is very big up to the moment where there's no uncertainty anymore. It's very well known. As a result of which we can then adjust the fee accordingly so that the applicants are not penalized by that uncertainty once it has been removed. So this is just a what-if approach as opposed to measuring the whole scale of possibilities. If you see what I'm saying. Thank you.

LARS HOFFMANN: Thank you, Xavier. There's a couple of more questions in the chat. I'm conscious of time. We have a few more minutes. Xavier and Marika, do you want me to go through those in the chat? Is that okay for you?

MARIKA KONINGS: Yeah, I think I've just answered hopefully a couple of those, but I would like to encourage everyone as well. If you have further questions, do not hesitate to send them on the IRT mailing list. We can start collecting those and either we respond to those on the mailing list or start off on Thursday's meeting kind of addressing those questions, that may be as well a more effective way to get through that.

LARS HOFFMANN: Yeah, I think that's a good idea. We have time allocated on Thursday, as we said. So if you have more questions, I think it's a great idea on the mailing list. If you're not subscribed, you can send them just directly to Marika or myself and then we'll go through those maybe on the opening on Thursday. There might be a good way to do that. With that, I don't see any more hands in the room nor in the physical or Zoom room.

I want to apologize just one more time on the technical issues. We're working on that. This is the first session on a Monday morning at the meeting. I'm sure this will be sorted out as we move through the week.

Two other quick points. I'm too scared to change the slide, so I'm just going to talk to it. We have two more sessions on Wednesday and on Thursday. On Wednesday, we're going to talk about the bid credit, multiplier for the ASP program. Christine will present that and we are also going to be talking about background screening. That's [inaudible] language. That language should be available very shortly already. Is it already in the chat? Yeah, I think Elisa just put the language in the chat already. So that's public. We go through that on Wednesday as well. Jared would do that.

And then on Thursday, we're going to go back to the fees and I would like to talk briefly about predictability just to run that up. I would also like to have kind of an open conversation about application queuing. You recall we had the initial discussion with a strong feedback from the community, from you guys, that the repeat of the draw. Unless maybe Steve Harvey does it, is not encouraged to be redone.

So we've been thinking about that, looking at the risk, what comes with it, and we want to run some ideas by you and see what the impact is. So you will not get written language. We'd just like to talk to you whether what we’re thinking works for you. There's a possibility also for objections, but I'm not sure whether we can squeeze that in and whether we are ready. But it's going to be a busy week, I think. With that, thank you, everybody for a productive discussion. The slides will be available ASAP on the IRT website. And with that, have a lovely—oh, they are ready. They are already available on the website. Thanks, everybody. Have a great week, and happy ICANN80. Thanks.

[END OF TRANSCRIPTION]