

New gTLD Program: Next Round

gTLD Evaluation Fee

SubPro IRT

10 June 2024



Context & Background

“The gTLD evaluation fee is set to recover costs associated with the new gTLD program. The fee is set to ensure that the program is fully funded and revenue neutral and is not subsidized by existing contributions from ICANN funding sources, including generic TLD registries and registrars, ccTLD contributions and RIR contributions.”
(SubPro Final Report Affirmation with Modification 15.4)

- The costs that need to be recovered are the implementation and the processing costs, with the implementation costs fully fixed and processing costs partly fixed.
- New gTLD applicants will subsidize a part of each ASP application.
- Conditional, elective evaluations, such as Community Priority Evaluation* and brand exemptions will be charged separately for those requesting these specific evaluations. Similarly, fees, such as those for objections and auctions** will also be established and confirmed at a later stage.

* Note, this relates to the third party costs involved, not the costs for implementing CPE.

**Note, costs for the independent objector and GAC / ALAC objections are included in the gTLD evaluation fee. This refers to other mainly third party costs related to objections and auctions.

gTLD Evaluation Fee elements

INCLUDED in gTLD Evaluation Fee	EXCLUDED * (conditional, elective evaluations) **
Legal Compliance	Community Priority Evaluation (CPE)
Background Screening	Geographic Name review
Financial evaluation	Brand Exemptions (Spec 13)
DNS Stability Review	Code of conduct exemption
String Similarity	Re-evaluations as a result of change requests (if applicable, for example, background screening)
Variant review	Joint venture review
Name collision (2012 approach) - TBD	Registry Voluntary Commitments (RVC) review
Geographic string determination	Reserved Names Review
Safeguard assessment	
Other (e.g. closed generics, competition, string length)	<i>To be discussed: occupancy fee for lingering applications</i>
	**Note that technical evaluation of the Registry Service Provider (RSP) is conducted through the RSP program for which a separate fee is charged.

****Disclaimer**** Evaluation fees do not include potential IDN variant subsidies or NCAP2 fees

Risk mitigation considerations

Risk & Impact	Mitigation Plan
Risk: Fewer than 2,000 applications received could result in increased financial risk to ICANN for recovery of implementation and processing costs	<ul style="list-style-type: none">• Develop an operating model for the processing phase of work which establishes a minimum capability with the ability to quickly scale after number of applications is known• Identify fixed and variable costs and develop application fee models which recover fixed costs with a lower number of applications

- From a risk perspective, it would be prudent to estimate the number of applications substantially lower than the number estimated in the ODA (2,000). However, the lower the number of applications that is used to recuperate the costs, the higher the gTLD Application Evaluation Fee. It will be important to find a balance between avoiding this risk, and creating a new risk in the form of a fee that is too high to attract applicants.
- To minimize the risk, while at the same time avoiding amassing excess funds, it is proposed that a model is implemented that adjusts the gTLD evaluation fee through a credit after the application window closes and the real number of applications is known so that the overall costs can be distributed over the actual number of applicants.
- Apply a more conservative assumption (1,000 applications) to recover the sunk costs (implementation - \$70M) which will have been spent before any application is received.

gTLD Evaluation Fee - Ranges

Fee Modeling Factors

- Risk-based approach to pricing given uncertainty in # of apps
- Identification of fixed costs that have been spent or locked in by the time round opens for guaranteed recovery
- Estimated variable costs based upon # of apps received to scale

Recommended approach:

Set gTLD evaluation fee at **TBD** - **current range is 208K-293K** and provide a credit** immediately following close of application window if more than 1,000 applications are received to refund implementation fees based on 1,000 applications. Implementation fees are set higher based on 1,000 applications in order to mitigate risk of receiving low application volume. ICANN org may apply a credit in case more than 1,000 but less than 1500 apps are received (detailed credit schedule to follow).

Base Fees Per Application (USD in Thousands) Program Category	Number of Applications			
	500	1,000	1,500	2000
(1) Implementation	\$70	\$70	\$70	\$70
(2) Evaluations	\$20	\$17	\$17	\$16
(3) QA, Objections, Auctions	\$11	\$9	\$8	\$7
(4) Processing & Program Support	\$87	\$60	\$48	\$42
(5) Org Shared Services	\$18	\$13	\$11	\$10
Subtotal Next Round Program	\$206	\$169	\$154	\$145
(6) Risk / Contingency (30% of Fee)	\$88	\$73	\$66	\$62
Total Fee	\$293	\$242	\$220	\$208
Potential Fees Pending Review				
Variant Subsidy Placeholder	\$7	\$3	\$2	\$2
NCAP2 Placeholder	TBD	TBD	TBD	TBD
Total Net Excess / (Deficit)	(\$35,000)	\$0	\$35,000	\$70,000

*Disclaimer** Evaluation fees do not include potential IDN variant subsidies or NCAP2 evaluations

**Example, estimated credit at evaluation fee of \$220K: 1,500 applications \$23K, 2,000 applications \$35K

Potential Excess / (Deficit) per Application Volume and Fee

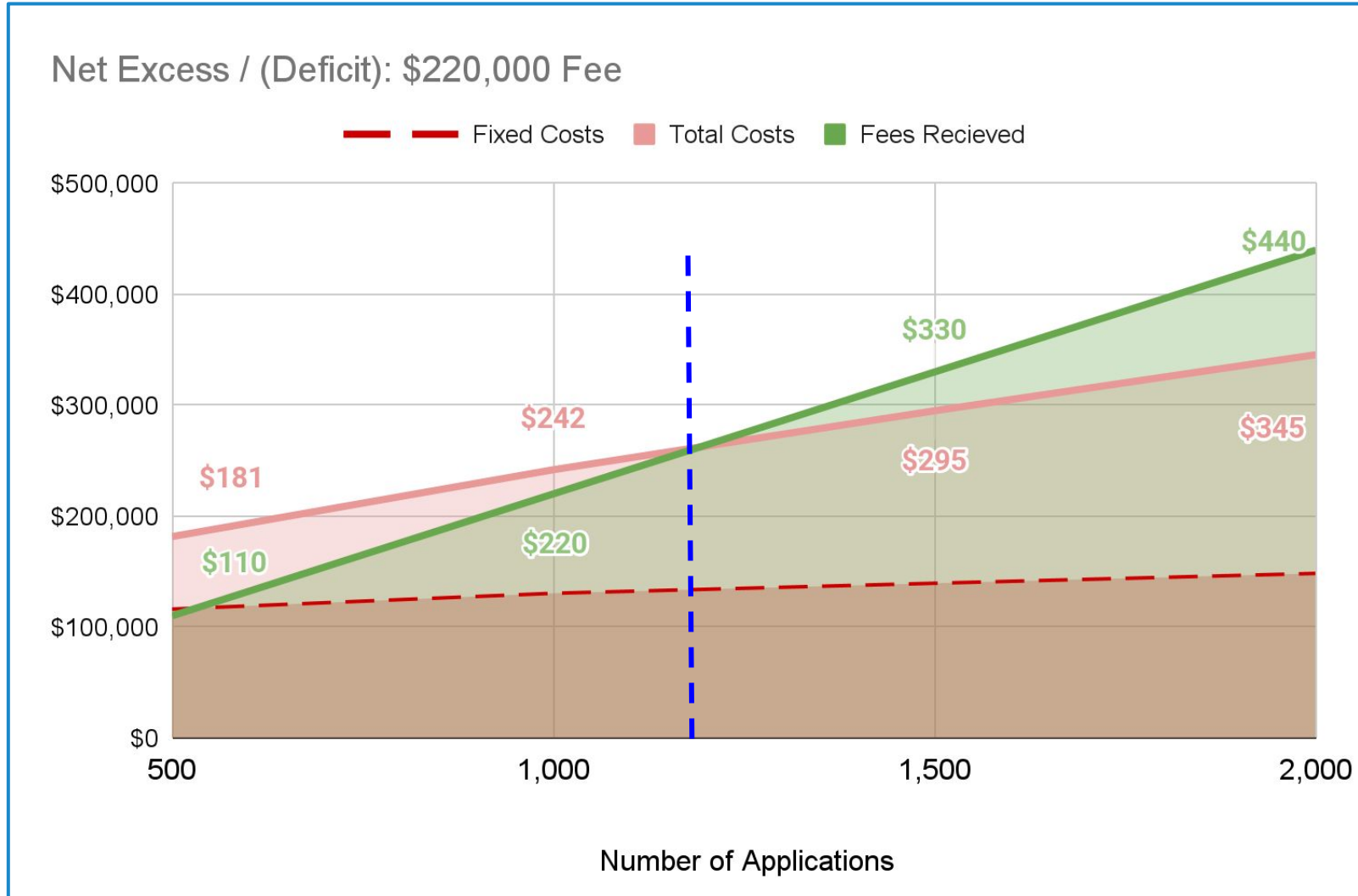
- What amount of potential deficit is acceptable versus providing a lower application fee?
- \$32M of implementation costs to be funded by the New gTLD Program: 2012 Round Application Fees and not required to be recovered
- The Net Excess / (Deficit) shown below is inclusive of the Risk / Contingency fees received

Evaluation Fee Volume Scenarios (USD in Millions)	500	1,000	1,500	2,000
\$208,000 Evaluation Fee				
Total Fees Received	\$104	\$208	\$312	\$415
Total Program Costs	\$181	\$242	\$295	\$345
Net Excess / (Deficit)	(\$78)	(\$34)	\$17	\$70
\$220,000 Evaluation Fee				
Total Fees Received	\$110	\$220	\$330	\$440
Total Program Costs	\$181	\$242	\$295	\$345
Net Excess / (Deficit)	(\$71)	(\$22)	\$35	\$94
\$242,000 Evaluation Fee				
Total Fees Received	\$121	\$242	\$363	\$483
Total Program Costs	\$181	\$242	\$295	\$345
Net Excess / (Deficit)	(\$61)	\$0	\$68	\$138

Note: implementation cost-recovery fee is set at \$70K per application (based on 1,000 applications) across all scenarios in order to mitigate risk of low application volume. ICANN may provide a credit in case more than 1,000 apps are received.

Net Excess / (Deficit) - \$220K Evaluation Fee (Example)

- Break even number of applications is below 1,500 due to implementation cost recovery fee stagnant across all application volume scenarios



Further background gTLD application fee

- (1) **Implementation:** As a risk mitigation measure, the application price assumes the \$70M implementation costs will be recovered from 1000 applications. Therefore each application will contribute \$70K towards the recovery of the \$70M implementation costs.
- (2) **Evaluations:** Many evaluations are expected to be performed by outside vendors (vendor outreach still to be performed). Expected to be a mix of fixed and variable costs. Estimates factor in inflation rate of 44% from 2012 contracted rates, staff research, knowledge, and 2012 lessons learned.
- (3) **Quality Assurance, Objections, Auctions:** planned to be performed by outside vendors. Expected to be a mix of fixed and variable costs. Estimates factor in inflation rate of 44% from 2012 contracted rates, staff research, knowledge, and 2012 lessons learned.

Further background gTLD application fee (continued)

- (4) **Processing & Program Support:** Processing and Program Support costs are across these cost categories: a) Personnel (ICANN Staff) & Contractors (temporary positions) b) External Costs, c) Travel & Meetings. These costs support handling the applications through the evaluations through to delegation and are a mix of fixed & variable costs.
- (5) **Org Shared Services:** ICANN org ongoing internal services that support all programs but which are not directly attributable to a program or project. These services provide the infrastructure and support that any organization would need to run a company/business
- (6) **Risk / Contingency:** Similar to the 2012 New gTLD application fee, the Next Round Application fee includes an assumption for unknown and hard to predict costs. Examples of hard to predict costs are: 1) Legal Fees and litigation, 2) Duration of Program - New gTLD Program: 2012 Round still has not closed, 3) Vendor Pricing, 4) Emergency Back-End Registry Operator (EBERO) program 5) lower volume of applications than assumed.

Placeholders - pending Board decision - NCAP2

- 1) **NCAP2*** - in its public comment contribution on draft report, ICANN org estimated that implementation of NCAP2 recommendations would cost:

Recommendation 3 - thousands to tens of thousands (USD)

Recommendation 5 - millions to tens of millions (USD) (not accounting for Visible Interruption and Visible Interruption with Notification)

Recommendation 6 - tens of thousands to hundreds of thousands (USD)

Recommendation 7 - tens of thousands to hundreds of thousands (USD)

Recommendation 9 - hundreds of thousands (USD)

Recommendation 9.1 - thousands to hundreds of thousands (USD)

Recommendation 10 - thousands (USD)

A further analysis is underway, including input from third party vendors, to be able to provide a more precise estimate of the total costs as well as cost per application if the Board decides to adopt these recommendations.

Estimated implementation costs: TBD

Processing cost: TBD

Cost per application: TBD

*Note, the gTLD evaluation fee includes the costs if NCAP is carried out as in 2012. Any additional cost that may result from the adoption of the SSAC Advice on NCAP2 have not been factored in and will need to be funded and recuperated separately.

Placeholders - pending Board decision - Variants

- 2) **Variants** - IDN EPDP Phase 1 Final Report recommends that up to 4 variants for existing Registries as well as new applicants should be free. Estimate is that a total of 50 variant applications will be received from up to 30 different applicants. Note that at a technical level each variant is considered a separate string and needs to be treated as such meaning that all string related evaluations apply.

Costs involved with the subsidy estimate:

- a) 2012 applicants: applicant + string evaluations
- b) New applicants: string evaluations

Total subsidy: \pm \$3.4M

Cost per application to subsidize variants: \pm \$1,700 - 6,800

- 3) **Other?** GNSO Supplemental Recommendations?

Context and Background – 2012 Assessment

2012 Context

- Details – Fee: \$185K | Estimated Apps: 500 | Actual Apps: 1,930 | Actual Delegated to Date: 1,241
- Development of key processes and procedures occurred after the round opened
- Staffing and costs increased significantly to implement processes which were not planned as part of the original fee calculation (e.g. TMCH, Cat1/Cat2 implementation)
- Higher than planned applications provided funding needed to complete implementation

Changes resulting in higher costs for 2026

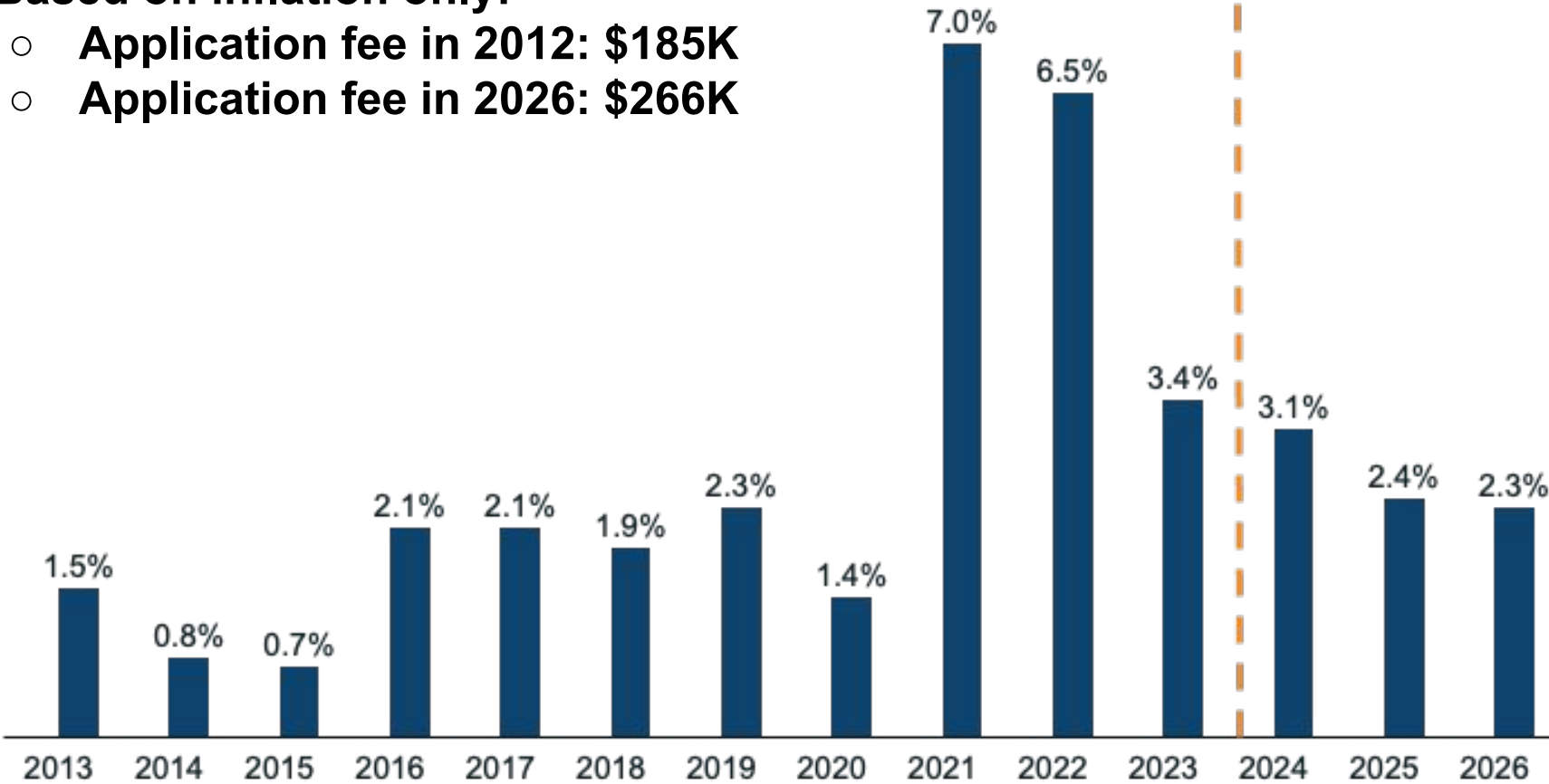
- Inflation – 44% increase in all costs by 2026
- Additional evaluations compared to 2012 including, RVCs, safeguard assessment, brand exemptions, limited challenges/appeals mechanism, IDN variant review, joint venture review.
- Increased complexity of evaluations for the following: background screening (for example, GDPR requirements), string contention, reserved name determinations, CPE Evaluations, string changes, change requests.
- Objectives of the program include the intent to diversify and enable broader access to the domain name system across the world. Supporting this objective includes activities that are different and supplemental to the 2012 round.

Changes resulting in lower costs for 2026

- Evaluations are carried out per entity/applicant instead of per application for background screening and financial evaluation.
- Technical evaluation performed on each RSP moved under the RSP Program with separate fee.
- Removal of Continuing Operations Instrument (COI) requirement.
- More planning opportunity and benefit of experience from the previous round.

US Consumer Price Index (CPI) - Inflation Rate Data

- Average CPI% growth from 2013-2026: 2.7%
- Compounded CPI% growth from 2013-2026: 44%
- Based on inflation only:
 - Application fee in 2012: \$185K
 - Application fee in 2026: \$266K



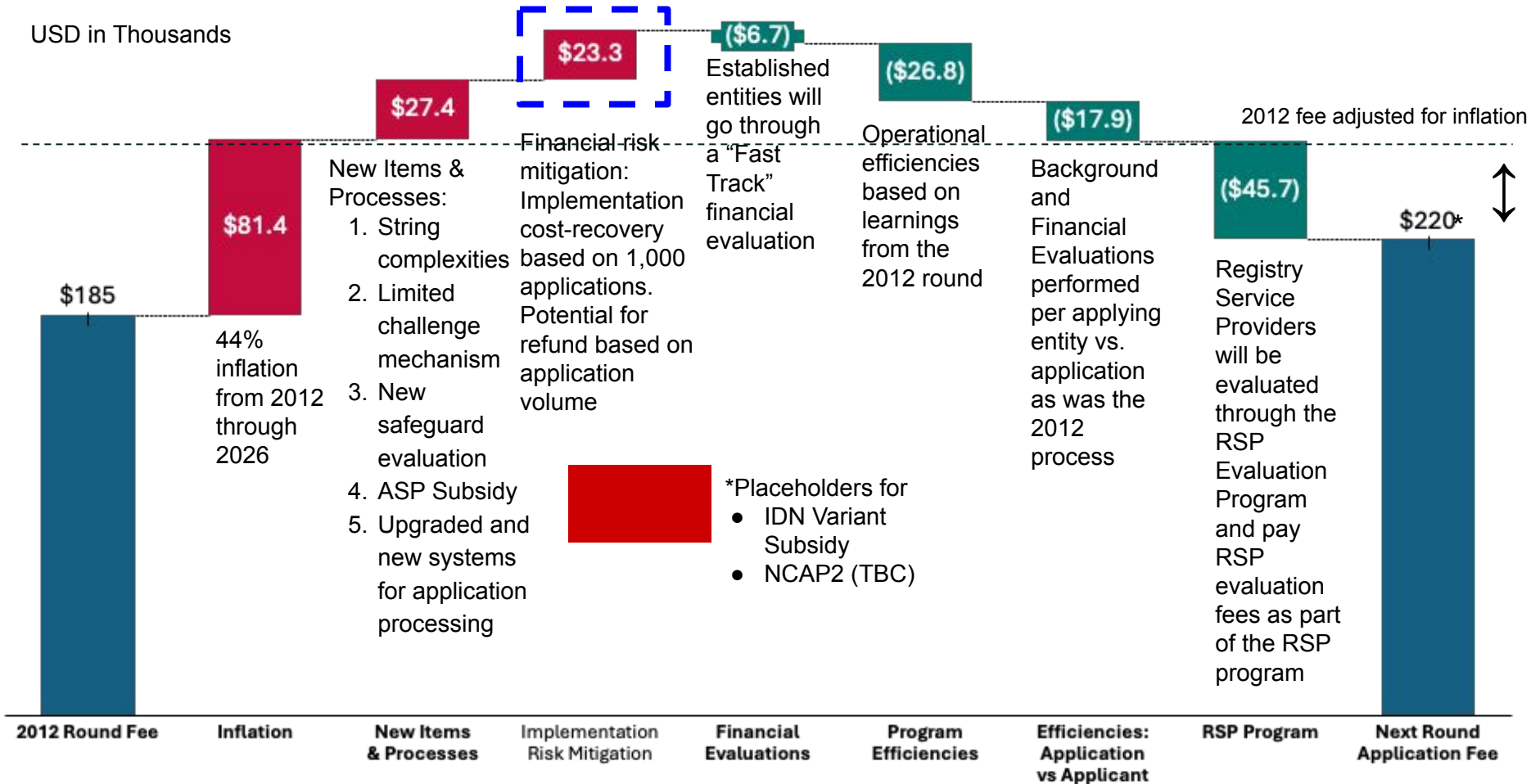
Data is from the Consumer Price Index (CPI) for Urban Consumers from the US Bureau of Labor Statistics. For 2024-26, US inflation forecasts are based on Bloomberg surveys of leading economists at major financial institutions.

Evaluation Fee Bridge - 2012 Round to Next Round (Example)

Below chart provides a bridge of application fee costs from the 2012 Round to the current Next Round

- Red boxes indicate incremental fees and costs per application
- Green boxes indicate lower fees and costs per application

USD in Thousands



 Potential refund if application volume above 1,000 applications

2012 Fee adjusted for inflation is \$266K; Next Round Fee is -20% lower than 2012 fee

Next Steps



Address any questions / comments IRT may have & Continue consultations with Board and IRT on the risk that is appropriate to take



Draft AGB language to be included in the next cycle of public comment.



Define refund schedule, costs of conditional evaluations and plan for excess / shortage.