

Bid Credit/Multiplier

Applicant Support Program



12 June 2024

Objective & Agenda

Objectives: 1) provide an update on research for a bid credit/multiplier for supported applicants that end up in an ICANN Auction of Last Resort; and 2) seek IRT input on whether options under consideration meet policy outputs.

Agenda:

- Background on 2012 ICANN Auction of Last Resort
- Related SubPro Final Report Outputs
- Options under Consideration
 - A. Post-bidding winning adjustments
 - B. Pre-bidding discount calculation
- Discussion questions: do either/both options meet the intent of the policy outputs in the SubPro Final Report?
- Next Steps

2012 Round ICANN Auctions of Last Resort Process

- Auctions were conducted over the Internet using a procedure known as an ascending-clock auction, where the auctioneer successively increases the start-of-round and end-of-round prices, on a per auction round basis.
- Applicants within the contention set had to submit bids to indicate their willingness to pay an amount within the defined price range in the auction round. (There was a bidding limit if deposited less than \$2m)
- As the price of the auction rounds increased, applicants were able to successively choose to exit the auction. (Continue vs. Exit Bids)
- When a sufficient number of applications had exited the auction process, so that the remaining application(s) were no longer in contention with one another, and all the relevant string(s) could be delegated as gTLDs, the auction was deemed concluded.
- At that point, prevailing applicants that remained in the auction will pay the finalized price and proceed toward delegation. (Winning price = second highest exit bid)

References:

- General info: <https://newgtlds.icann.org/en/applicants/auctions>
- Direct Auction Rules: <https://newgtlds.icann.org/en/applicants/auctions/rules-03nov14-en.pdf>
- Indirect Auction Rules: <https://newgtlds.icann.org/en/applicants/auctions/rules-indirect-contention-24feb15-en.pdf>

2012 Round ICANN Auction of Last Resort Results

- 17 ICANN Auctions of Last Resort
- Winning bid ranged from \$1 to \$135m
- Median winning bid = \$3m
- Average winning bid = \$14m
- Auction proceeds → [ICANN Grant Program](#)

SubPro Final Report Outputs

Related to ASP Bid Credit/Multiplier

SubPro Final Report Relevant Outputs

Recommendation 17.15: If an applicant qualifies for Applicant Support and is part of a contention set that is resolved through an ICANN Auction of Last Resort, a **bid credit, multiplier, or other similar mechanism** must apply to the bid submitted by that applicant.

- **Implementation Guidance 17.16:** Research should be conducted in the implementation phase to determine the **exact nature and amount of the bid credit, multiplier, or other mechanism** described in Recommendation 17.15. Research should also be completed to **determine a maximum value** associated with the bid credit, multiplier, or other mechanism.
- **Implementation Guidance 17.7:** The Working Group supports Recommendation 6.1.b in the Program Implementation Review Report, which states: “6.1.b: Consider **researching globally recognized procedures** that could be adapted for the implementation of the Applicant Support Program.” [emphasis added]

Rationale for Recommendation 17.15:

*...The Working Group agreed that applicants qualified for Applicant Support should receive some form of special treatment in contention sets with standard applicants. The Working Group considered a proposal from the ALAC submitted through public comment on the Initial Report that an applicant qualified to receive Applicant Support should be given priority in any string contention set, ...The Working Group reached agreement that...it is more appropriate to **increase the chances of applicants qualified to receive Applicant Support winning at auction**. The Working Group therefore recommends applying a bid credit, multiplier, or other similar mechanism for bids submitted by such applicants to increase their chances of success at auction... [emphasis added]*

Options Under Consideration

ASP Bid Credit/Multiplier

Objectives of Options Under Consideration

- ICANN is in the process of implementing a bid credit, multiplier, or other similar mechanism to increase the probability that qualified supported applicants from the Applicant Support Program win their gTLDs.
- The research reviewed multiple mechanisms used in practice, including bid credits, set-asides, caps, scoring rules, and winning and pricing rules (including combinatorial auctions)
- This presentation presents two mechanisms:
 - A. Post-bidding winning adjustments
 - B. Pre-bidding discount calculation

Relevant Economics

Bid credits and **set-asides** limit complexity and allow for integration with the Auction of Last Resort. When considering these mechanisms, ICANN must decide whether to set the bid credit (A) or the quantity of supported applicants that prevail (B). ICANN also must decide the bid credit percentage for supported applicants.

- A. Bid credits:** fix the percentage credit awarded but leave the quantity won by supported applicants as an outcome variable
 - Bid credits are an ideal tool to recognize the value (externality) generated by individual applicants
 - Does ICANN have a view concerning the bid credit level? (e.g., 25-35%)

- B. Set-asides** fix the quantity reserved for supported applicants but leave the (implicit) discount as an outcome variable
 - Set-asides are an ideal tool to target an outcome
 - Does ICANN have a view regarding the desired outcome? (e.g., a 50% win rate by supported applicants)

Mechanism Options

A. Post-bidding winning adjustments

- ICANN sets a bid credit for supported applicant bids (e.g., XX%) and conducts contention resolution
 - Typically the bid credit would be determined by answering the question: “If we target [25%] of supported applicants to prevail, what does the bid credit amount need to be to achieve that?”
 - The bid credit is determined by running a 1st round auction to set the credit percentage (e.g., 35%), then running a 2nd round auction to apply the 35% credit to reach the target win rate of 25%.
- The bid credit is added to supported applicants’ auction bid to increase the chances of prevailing at auction.
- Without a target win rate, the outcome—how many supported applicants prevail in Auctions of Last Resort—is unknown and is dependent on the bid credit amount.
 - e.g., XX% = Y applicants winning at Auctions of Last Resort

Mechanism Options

B. Pre-bidding credit calculation

- ICANN requests maximum bids from all participants (e.g., during the application or after announcing contention sets but before Auction of Last Resort)
- ICANN sets the credit amount for supported applicants
 - Typically this would be set based on the target win rate for the number of supported applicants
- Contention resolution follows as usual with the calculated credit. No bidder can bid beyond their initial bid.
- Without a target win rate, the outcome—how many supported applicants prevail in Auctions of Last Resort—is unknown and is dependent on the bid credit amount.
 - e.g., XX% = Y applicants winning at Auctions of Last Resort

Discussion Questions for IRT

1. Do either/both of these options (A & B) meet the intent of the SubPro Final Report policy recommendations?
 - a. Does one option (A or B) more closely meet the intent of the policy recommendations?
2. Does the IRT have any questions or concerns about how these mechanisms affect the ICANN Auction of Last Resort for all participating gTLD applicants?
3. What additional questions or input does the IRT have on the options under consideration?

Next Steps

- ICANN org:
 - takes back questions that may require additional discussion, research, or input from auctions experts;
 - proposes an option and more details on implementation of that (e.g., discount/win rate) based upon IRT input; and
 - brings proposed option to IRT before implementing.

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