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Anne Aikman Scalese
Avri Doria
Cheryl Langdon-Orr
Christopher Wilkinson
Dietmar Lenden
Donna Austin
Jeff Neuman
Jessica Hooper
Kurt Pritz
Martin Sutton
Maxim Alzoba
Nanig Mehranian
Phil Buckingham
Rubens Kuhl
Rudy Mendoza

Apologies:

none

Staff:

Steve Chan
Emily Barabas
Julie Hedlund
Michelle DeSmyter

AC Chat transcript 11, January 2018

Michelle DeSmyter: Dear All, Welcome to the New gTLD Subsequent Procedures Sub Team – Track 4 – IDNs/Technical & Operations call on Thursday, 11 January 2018 at 15:00 UTC.

Michelle DeSmyter: Agenda wiki page:
<https://urldefense.proofpoint.com/v2/url?u=https->

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Alan Greenberg:I am on another call but will join this one as soon as possible.

Michelle DeSmyter:Great, thank you Alan.

Anne Aikman-Scalese (IPC):@staff - the 520 phone number is me. thank you

Maxim Alzoba(FAITID):Hello All

Cheryl Langdon-Orr 2:slide 6

Cheryl Langdon-Orr 2:slide 7

Cheryl Langdon-Orr 2:slide 8

Maxim Alzoba(FAITID):financial statements of new companies usually does not say more than a balance

Cheryl Langdon-Orr 2:slide 9

Cheryl Langdon-Orr 2:slide 10

Phil Buckingham:agreed Maxim . It differs country by country . Applicant with have to form a new company to apply ? so there will be no financials .

Rubens Kuhl:We can't hear you Kurt.

Maxim Alzoba(FAITID):to provide a common model it should exist

Maxim Alzoba(FAITID):but they are different

Phil Buckingham:agreed Kurt .

Maxim Alzoba(FAITID):(different subcontractors/salaries/rent/shareholders requirements e.t.c.)

Cheryl Langdon-Orr 2:so review the Financial Criteria run two (1) *tyoes* of 'processes' ont that is more suitable for start ups and the other for "going concerns" Noyed Kurt

Cheryl Langdon-Orr 2:Noted (sorry typing inthe dark here it is 0220 - I need an illuminated Keyboard)

Phil Buckingham:I would envisiage a different type of financial evalaution/ due diligence for each different type of "category " - to be defined

Steve Chan:The GDD's Program Implementation Review Report suggested that a 3rd party certification should be explored. You can see this mentioned first on page 86:

https://urldefense.proofpoint.com/v2/url?u=https-3A_www.icann.org_en_system_files_program-2Dreview-2D29jan16-2Den.pdf&d=DwIFaQ&c=FmY1u3PJp6wrcrwl3mSVzgfkbPSS6sJms7xcl4I5cM&r=8_WhWIPqsLT6TmF1Zmyci866vcPSFO4VShFqESGe_5iHWGIBLwwwhehFBfjrsjWv9&m=JoFje_UKYKv4Ib5Z0K3x7I6YLNOTna_zKt0H-e-xbjU&s=vNEtS8Mk6pzhskkbwulktPqQ-YkA8EkItCoC8jVY3rg&e=

Steve Chan:And the report also acknowledges the challenges of reviewing each applications individually.

Donna Austin, Neustar:@Steve, does it have to be an independent 3rd party certification or can that be provided by the applicants accountants?

Christopher Wilkinson:Agree with Kurt and Jeff. Some financial data is necessary. We need measures that do not discriminate agoainst start-ups.

Steve Chan:@Donna, I don't believe that suggestion from GDD was intended to be prescriptive. Rather, it's an idea to be explored.

Cheryl Langdon-Orr 2:Yes Steve one of the advantages we would no doubt see with any changes made to Financial Eval in the future *should* be an aim to lower the time and other challenges caused by individual evaluations approach

Anne Aikman-Scalese (IPC):If the Applicant's Chief Financial Officer certifies the financial statements and is somehow subject to professional discipline in his/her country of practice, then that would be a good check on the numbers.

Cheryl Langdon-Orr 2: And the "Can" provide funding (as opposed to having it "in the bank" may apply to some start ups as well as entities already 'trading'

Jeff Neuman:I would not be in favor of ICANN providing cost models of registries even as templates. They do not have the experience or expertise to do this.

Cheryl Langdon-Orr 2:Slide 11

Kurt Pritz:One of my points is that there is someone sitting at KPMG or E&Y, having evaluated 1000 applications, thinking, "I know how to make that process half as onerous and just as (or more) effective." Have we asked them?

Maxim Alzoba(FAITID):@Jeff, +1

Jeff Neuman:ICANN tried to do it for the last round and because of other unrelated issues, it was a disaster

Jeff Neuman:and way off

Maxim Alzoba(FAITID):also costs are quite different in different parts of the world

Cheryl Langdon-Orr 2:We will come back to that I believe Kurt

Anne Aikman-Scalese (IPC):The vast majority of "start-ups" would not be public companies. and some could easily be non-profits. Is the standard the same for a non-profit? Agree with Kurt we need to consult accounting professionals re how to do this..

Jeff Neuman:ICANN Was using the business model templates to figure out how much it would need to pay EBEROs. Naturally that encouraged applicants to submit costs much lower than what they would actually incur (because they did not want that money tied up in a COI)

Maxim Alzoba(FAITID):@Anne , it was the same

Cheryl Langdon-Orr 2:slide 12

Jeff Neuman:Thus the proposed business models were WAY off by a huge factor

Phil Buckingham:totally agree Jeff .

Jeff Neuman:We need to accept the fact that there will be business failures of registries...that is ok

Jeff Neuman:But that does not mean we should turn a blind eye if we see warning signs during the application process that a registry will not be successful

Jeff Neuman:[All of this is my personal opinion]

Anne Aikman-Scalese (IPC):@Maxim - thank you - I just meant in the "real world", would professional accounting firms evaluate non-profits' financial stability in the same manner. @jeff - should we consider some contracts that are shorter than ten years in order to decrease barriers to entry and risk taking?

Maxim Alzoba(FAITID):do we know the real EBERO costs for .wed?

Jeff Neuman:@Anne - a shorter term contract with ICANN could have the opposite

effect that we want; namely, it could become tougher for registries to get the funding that they need if investors believe that they will not have a long enough time to recoup their investment

Jeff Neuman:So, I would not be in favor of shorter terms.

Jeff Neuman:@Maxim - that is a good question.

Anne Aikman-Scalese (IPC):OK understood

Maxim Alzoba(FAITID):but some brand might use franchise with paid registrations, for example (for its business partners)

Maxim Alzoba(FAITID):@Jeff, answer to that will change lots of things (including amounts on COI)

Jeff Neuman:I do agree that there should be separate criteria for registries dependent on selling third party registrations and those that intend to use registries internally. I am purposely not using terms like open and brand as I think that is too limiting

Jeff Neuman:But the separate criteria should be for evaluating financial fitness NOT for evaluating models

Phil Buckingham:Agreed Jeff , there should be no evaluation of the business model . Forecasts are meaningless two years out.

Rubens Kuhl:ICANN established RAA 2013 requirement after application, and that invalidated all business models proposed.

Anne Aikman-Scalese (IPC):I hope we do not lose Kurt's point that there are financial professionals who would be best equipped to help develop the litmus tests we need. As Jeff points out, ICANN does not have and should not be expected to have the expertise to put forth these models.

Cheryl Langdon-Orr 2:Maxim is that an old hand?

Maxim Alzoba(FAITID):@Cheryl , sorry , it was old

Phil Buckingham:Agreed Jeff - by its very nature every single business model is different . We can't standardise any model

Cheryl Langdon-Orr 2:NO Maxim :-) just checking

Martin Sutton:@Jeff - you mentioned that submissions of financial models to calculate the COI values were potentially lower than reality, does that take into account that the focus of these was on "critical registry services" only

Jeff Neuman:And every model changes. Those that launched 3 or 4 years after they applied went through lots of changes between application time and launch time

Rubens Kuhl:Start-up lingo for those changes is "pivoting"

Phil Buckingham:exactly Cheryl , the overriding requirement here is innovation.

Jeff Neuman:@Cheryl - true. But organizations had 3 or 4 years of ICANN caused delay during which time staff had to be maintained, resources kept, etc. Those costs cannot be ignored

Jeff Neuman:and the many years delay / costs directly resulted in business models changing to recoup (or attempt to recoup) those costs

Maxim Alzoba(FAITID):REGistries are not in business of supporting models, just DNS services

Jeff Neuman:@Martin - yes that is part of it...that it only focused on what ICANN considered critical functions was an issue as well.

Phil Buckingham:We need to go much further than the straw cookie monster .

Anne Aikman-Scalese (IPC):I think it is important to note that ICANN's internal review suggested third party certification per Steve's reference to page 86 of that review. Will try to reread that later today.

Cheryl Langdon-Orr 2:Yup pretty much a 12 moth effort

Cheryl Langdon-Orr 2:*SIGH*

Cheryl Langdon-Orr 2:**Head-bankg**

Rubens Kuhl:And I'm on record asking for this information long before the SubPro PDP WG was put in motion... so it's a life span of many years, actually.

Cheryl Langdon-Orr 2:We even got a quote

Phil Buckingham:Huge amount !!

Kurt Pritz:\$100,000 = less than one application fee. we could just write: Dear KPMG: After considering the review of financial applications, what recommendations do you have to tream line and improve the process. Consider both the process and the substantive questions and answers.

Rubens Kuhl:They will say that it's covered by confidentiality...

Maxim Alzoba(FAITID):by e all

Anne Aikman-Scalese (IPC):Thanks Cheryl

avri doria:bye

Rubens Kuhl:bye all!

Cheryl Langdon-Orr 2:Thanks everyone!!!

Phil Buckingham:thanks cheryl & rubens