

MEMORANDUM

TO: Cross Community Working Group to Develop an IANA Stewardship Transition Proposal on Naming Related Functions ("CWG")

FROM: Sidley Austin LLP ("Sidley")

RE: IANA Intellectual Property Rights

DATE: August 4, 2015

Overview and Qualifications

On June 11, 2015, the CWG submitted its final proposal for the IANA Stewardship Transition on Naming-Related Functions with an attached term sheet for the contract between ICANN and Post Transition IANA ("PTI"), including preliminary views on how intellectual property might be allocated between ICANN and PTI. You have requested that we provide the CWG with an analysis of the key differences, as well as the advantages and disadvantages, of three potential post-transition ownership structures for certain registered IANA intellectual property rights ("IANA IPR"):

- ICANN maintains ownership of the IANA IPR,
- PTI becomes the registered owner of the IANA IPR, and
- An independent trust, such as the IETF Trust, becomes the registered owner of the IANA IPR.

Please note that our analysis, which addresses the legal issues regarding the ownership of the IANA IPR, is preliminary in nature, tailored to the discussions between the CWG and Sidley, and provided to help facilitate CWG's consideration of options with respect to the IANA IPR ownership structure. It should not be relied upon by other persons for other purposes. This draft memorandum reflects our preliminary independent evaluation and has not been reviewed by any third parties.

Background

Based on the information that has been provided to Sidley to date, we understand the following:

- ICANN is the owner of all registered IANA IPR, including trademarks, domain names and related intellectual property.
- ICANN currently owns certain domain names,¹ including iana.org, and the following three trademarks relevant to the IANA functions:
 - the Internet Assigned Numbers Authority,

¹ **Note to draft:** ICANN staff will be providing us a list of the relevant domain names.

- o IANA and
- o the IANA logo below:



As the owner of the IANA IPR, ICANN retains full rights to its use and licensing (subject to its duty to act in accordance with ICANN's stated mission as provided in ICANN's Articles of Incorporation and Bylaws).² To maintain these rights, ICANN is responsible for oversight and quality control with respect to trademark use. If oversight and quality control by a trademark owner are not adequate with respect to licensees, the license may be deemed a "naked license," which could lead to invalidation and a declaration by the United States Patent and Trademark Office ("USPTO") of abandonment of the mark. As a result, it is important that the trademark owner, currently ICANN, exercise this oversight and quality control.

Following the transition of the IANA functions to PTI, the IANA IPR ownership could take the form of any of the three structures described below, each of which has advantages and disadvantages that we describe for the CWG's consideration. In addition, we have attached the "IANA IPR Stress Tests" as Appendix A, to help pressure test each scenario under different contingencies.

IANA IPR Ownership Scenarios

1. ICANN Maintains Ownership of IANA IPR (Scenario 1)

Under Scenario 1, ICANN continues to own the IANA IPR, but would license to PTI the rights to use the IANA IPR in connection with the performance of the IANA functions pursuant to the ICANN-PTI IANA Functions Agreement ("IANA Functions Agreement"). The IANA IPR license terms can be embedded into the IANA Functions Agreement, along with the trademark usage guidelines and quality control standards discussed above. We expect these guidelines and standards would be consistent with and support the mission and core values of ICANN, and also would set parameters and approval rights over ancillary uses (for example, promotional displays at conferences and other promotional uses).

Scenario 1 has a few distinct advantages:

- With PTI as the licensed user of the IANA IPR and ICANN as the licensor, ICANN would be the party responsible for oversight and quality control of the licensed use and for maintaining registration of the marks.
 - o Since ICANN currently owns the IANA IPR, it is well equipped to exercise oversight and control over the quality and usage of the trademarks. ICANN has experience maintaining the trademark registrations and, presumably, policing and enforcing the trademarks against third-parties.

² **Note to draft:** Sidley has not been made aware of any express contractual or governance restrictions focused on IP.

- This approach also maintains the *status quo* with respect to IANA IPR registrations, thus minimizing any administrative burdens associated with transfer (e.g., a contract for the assignment of ownership of the IANA IPR, registration of the transfer with the USPTO, implementation of domain name transfers, etc.).
- Per the CWG Final Proposal, PTI will be the IANA functions operator. The Internet Number Community, through CRISP, has recommended that ownership of the IANA IPR not be held by the IANA functions operator in order to facilitate a smooth transition should another operator be selected in the future and to ensure that these assets are used in a non-discriminatory way. Therefore, housing the IANA IPR with ICANN would be consistent with the Internet Number Community's separation recommendation (albeit not with their specifically-recommended form of an independent trust as discussed in Scenario 3 below).
- Maintaining IANA IPR ownership in ICANN would allow for checks and balances with respect to the IANA IPR to be integrated with the overall IANA functions review and ICANN accountability mechanisms. As such, CCWG and the broader multistakeholder community would not need to create a separate accountability mechanism to oversee the IANA IPR.
- While Scenario 1 differs from the *status quo* in that ICANN would need to license the IANA IPR to PTI, this license could be contained within the larger IANA Functions Agreement; no additional separate legal agreement would be required.
- Although under Scenario 1, the IANA IPR is not "ring-fenced" within PTI (since the IANA IPR would continue to be owned by ICANN and would be registered under ICANN's name with the USPTO or Registrars, as applicable), it would be easy to arrange for a transition of the license to a new IANA functions operator, should the need arise to discontinue PTI's role as such. In fact, because PTI would never take ownership of the IANA IPR and would function as a licensee, PTI's cooperation would not be required to transition the IANA IPR to a new IANA functions operator.

Scenario 1 does have the following disadvantage:

- If there were an ICANN bankruptcy, the ICANN-owned IANA IPR would become part of ICANN's bankruptcy estate. Any ability to use or dispose of the IANA IPR would be subject to the applicable restrictions under bankruptcy law. Note, however, that this risk is mitigated to a degree since, as a non-profit public benefit corporation, ICANN would likely benefit from specific safe-harbors available to most non-profit corporations, which
 - prohibit creditors from commencing involuntary U.S. federal bankruptcy proceedings against such entities;
 - prevent the conversion of a U.S. federal bankruptcy proceeding under Chapter 11 (the U.S. Bankruptcy Code's reorganization chapter) to a proceeding under Chapter 7 (the Bankruptcy Code's liquidation chapter) with respect to such entities; and

- honor certain non-bankruptcy law restrictions on the transfer of such entities' property.

2. **PTI Becomes the Registered Owner of the IANA IPR (Scenario 2)**

Under Scenario 2, ICANN would transfer IANA IPR ownership to PTI (along with the other IANA-specific assets) immediately upon the transition. Advantages of this scenario include:

- PTI, as the entity that will be using the trademarks and domain names, would be able to exert full legal control over the IANA IPR to ensure proper maintenance and enforcement of the trademarks.
- All the assets related to the IANA functions would be “ring-fenced” (i.e., held separately by PTI) which would facilitate a spin out or transfer of the IANA assets and functions to a third party if a change in IANA functions operator were ever needed. The IANA IPR would be assigned to a new IANA functions operator along with the other relevant IANA assets.
- If ICANN were to become insolvent, PTI, a legally separate entity, would not become a debtor in ICANN’s bankruptcy proceedings. To the extent ownership is completely transferred to PTI, and ICANN does not hold an “interest” in the property, the IANA IPR would not become part of ICANN’s bankruptcy estate.

The disadvantages to Scenario 2 include:

- Joinder of trademark ownership and the IANA functions operator in the same entity is counter to the recommendations of Internet Number Community noted above in Scenario 1 and discussed in more detail in Scenario 3, below. However, ring-fencing the IANA IPR, along with the other IANA assets, does achieve one of the goals of the Internet Number Community, which is to facilitate a smooth transition in the event of a change in the IANA functions operator because the IANA-specific assets are segregated in PTI.
- PTI would have control over the IANA IPR as both owner and user. ICANN and the multistakeholder community would not exercise direct oversight over trademark usage and quality control; their influence would be through the IANA function review and other accountability mechanisms, including ICANN’s relationship to PTI as its sole member.
- There would be some expenses involved in transferring ownership of the IANA IPR: ICANN would need to assign all of its right and title to and interest in the IANA IPR to PTI, along with all goodwill relating to it.
 - This may require a valuation of the IANA IPR and associated goodwill, which may have financial consequences for ICANN and/or PTI. However, if PTI does in fact qualify as a tax-exempt entity, a transfer without consideration from ICANN (a tax-exempt entity) to another tax-exempt entity would have no tax impact. If PTI does not qualify as a tax-exempt entity, and assuming it is a California non-profit public benefit corporation with ICANN as its sole member, the transfer likely would be treated as a nontaxable contribution of capital from ICANN.

- Documentation also would be required to address the transfer of ownership of the IANA IPR if there is a separation process that necessitates a change in the identity of the IANA functions operator. Under such a scenario, the IANA IPR ownership would have to be transferred to the new IANA functions operator, and PTI's cooperation would be required to give effect to such transfer. However, this issue can be managed by including language in the PTI bylaws, and in the IANA Functions Agreement, that would require PTI to cooperate in the assignment of its ownership interest in the IANA IPR should PTI cease to be the IANA functions operator.
- If there were a PTI bankruptcy, the PTI-owned IANA IPR would become part of PTI's bankruptcy estate. However, as a California public benefit corporation, PTI would likely enjoy the same safe-harbors as afforded to ICANN.

3. **An Independent Trust Becomes the Registered Owner of the IANA IPR (Scenario 3)**

In Scenario 3, IANA IPR ownership would be transferred from ICANN to an independent trust, such as the IETF Trust. This structure differs from Scenario 2, however, because it contemplates transferring control over the IANA IPR to an independent entity. The trust could not merely take possession of the IANA IPR, but must also exert control over the quality of services distributed under the IANA IPR. As such, the trust would either need to acquire these capabilities directly, or it would need to designate a third party to exercise this oversight of PTI on its behalf. Presumably under the current transition structure, this third party would be ICANN, which, together with the multistakeholder community, is already exercising periodic review of the IANA functions by PTI under the CWG final proposal. However, the trust also would need to make commitments to the multistakeholder community regarding its own use and disposition of the IANA IPR, as we discuss further below.

There are advantages to Scenario 3 including:

- Meeting the recommendation of the Internet Number Community who, through CRISP, submitted a recommendation that an independent trust – rather than the IANA functions operator – hold ownership of the IANA IPR following the transition and indicated the IETF Trust would be a suitable repository. Although the protocol parameters community was silent on this issue initially, in response to CRISP's recommendation, the protocol parameters community indicated that it had no objection to the approach recommended by CRISP.
- Under this structure, the trust would license the rights to the IANA IPR to PTI (directly or through ICANN) to be used by PTI in the performance of the IANA functions. Similar to Scenario 1, this results in a structure in which the “owner” and “user” of the IANA IPR are different entities, thus facilitating the implementation of checks and balances, through the IANA IPR license to PTI.
- From a bankruptcy perspective, there may be advantages to transferring ownership of the IANA IPR to an independent trust. In the event either ICANN or PTI were to commence a bankruptcy proceeding, provided the trust is properly structured, the IANA IPR would not become part of the bankruptcy estate. Moreover, only “business trusts” are eligible to commence bankruptcy proceedings under the U.S. Bankruptcy Code. As a result, provided the independent trust does not meet the criteria for becoming a business trust under the bankruptcy code, it would be unable to file for U.S. federal bankruptcy relief.

Scenario 3 has a number of disadvantages.

- Of the three scenarios, Scenario 3 will require the most effort to implement. The following is an initial list, but there may be additional items and issues that emerge. Ultimately, since this ownership scenario introduces a third party, and would not be encompassed in the existing IANA functions transition structure already in place, it is the more costly and administratively burdensome of the three scenarios to implement and maintain from a governance and accountability perspective.
 - Consideration will need to be given to whether the IETF Trust should be the trust to hold this IANA IPR. We acknowledge that CRISP has expressed a preference that IANA IPR ownership be transferred to an entity independent from PTI, suggesting the IETF Trust as the repository, a suggestion to which the protocol parameters community indicated it had no objection. However, if a trust were viewed as the optimal structure, it may be preferable to establish a new trust. Consider initially that the current beneficiary of the IETF Trust is the IETF itself. Given the nature of these IANA IPR assets, the community may want a broader multistakeholder organization or association as the beneficiary. This could be achieved through amendment of the IETF trust agreement to add the broader community as a beneficiary with respect to the IANA IPR. In addition, the IETF trust document would have to be amended to provide for safeguards against transfer, and specific instructions regarding disposition of the IANA IPR, which instructions and safeguards would have to be protected against amendment by the trustees without ICANN's approval. This could be accomplished by providing in the amendment of the IETF trust agreement that no amendment to the trust agreement that would modify such instructions and safeguards would be valid or effective without the approval and consent of ICANN (or its successor in interest).
 - An assignment of IANA IPR will need to be prepared to transfer ownership to the trust (similar to what would be required to transfer ownership to PTI under Scenario 2). Domain name registrations also will need to be transferred. In addition, the registered owner of the IANA IPR, and all future goodwill arising from PTI's use of the trademarks, also would be owned by the trust.
 - Following the assignment of ownership to the trust, there will need to be a separate license agreement to PTI, granting it the right to use the IANA IPR in the performance of its duties as the IANA functions operator. This will need to be a separate agreement from the IANA Functions Agreement, as the trust will need to be a party to this license.
 - Regardless of whether the IETF Trust is selected, or a new trust is created, the trust documents will need to be amended (in the case of the IETF Trust), or drafted (in the case of a new trust), to reflect the duties and responsibilities of the trustees with respect to the IANA IPR, and their handling of the IANA IPR under certain circumstances such as a transfer of the IANA functions operator responsibilities away from PTI. To maintain accountability by the trust and to ensure it properly maintains the IANA IPR, additional contracts with accountability mechanisms may be needed. Such mechanisms may include community oversight or involvement. Further, the trust documentation would need to provide for the immediate transfer of title away from the trust, if the trustee breaches its duties with respect to the IANA IPR. These will be very

important commitments from the trust to the multistakeholder community, and will need to be clear that the trustees will take direction from ICANN, acting as the voice of the that community.

- Also, irrespective of whether a new trust is formed, or the existing IETF Trust is used, consideration will need to be given as to the tax attributes of the trust. If the trust is holding property for charitable purposes, it would be desirable to obtain tax-exempt status for the trust in the event the trust ever realizes income from the IANA IPR. The type of tax-exempt status (Internal Revenue Code section 501(c)(3) charitable organization (either a public charity or a private foundation), or an organization for the promotion of social welfare under section 501(c)(4)) would depend upon the possible income producing activities of the trust.
- In addition, from the perspective of the USPTO, the IETF Trust is not a separate legal entity, thus the requirement that the trustees of the IETF Trust collectively own the IANA IPR, at least from the perspective of the USPTO. If the trustees of the trust rotate on a regular basis, care will need to be taken to maintain the federal registries and assign ownership of the IANA IPR to whichever new trustees are currently in office.
- As noted previously, we have been advised that the IANA IPR is limited to US registrations. The legal status of a trust, and the role of a trustee, is well recognized in the U.S. However, if there are intellectual property registrations required in foreign jurisdictions, care would need to be taken to ensure that the trust will be a recognized legal entity, capable of enforcing all rights attendant to ownership.

Appendix A

IANA IPR Stress Tests

| <u>STRESS TEST #1: ICANN defaults on its IANA functions obligations</u> | | |
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| If ICANN is the Registered Owner of IANA IPR | If PTI is the Registered Owner of IANA IPR | If a trust is the Registered Owner of IANA IPR |
| <p>The community has redress mechanisms in the increased powers provided pursuant to the CWG transition proposal, and the CCWG accountability mechanisms under development.</p> <p>PTI can enforce its rights against ICANN under the IANA Functions Agreement.</p> <p>ICANN will also be bound by the IANA function review process to comply with recommended outcome, even if it means transferring IPR ownership to a third party. The community can remove the ICANN Board if it does not comply.</p> | <p>PTI can enforce its rights against ICANN under the IANA Functions Agreement. Even if ICANN is in breach, no impact on IANA IPR because PTI owns and controls IANA IPR.</p> | <p>The trust documents should be drafted to provide express instructions to the trustee if there is an ICANN default. Such instructions should require the trustee to comply with the direction of the multistakeholder community in the event of default (through whatever mechanism is adopted to give effect to the community's interests through the trust).</p> <p>If an ICANN breach relates to the IANA IPR and ICANN is a licensee (with PTI as a sublicensee), then the trustees would need to enforce rights against ICANN under its license with ICANN. If the ICANN/PTI IANA Functions Agreement is terminated, the trust would need to terminate the license to ICANN and enter into a new license with PTI or a new IANA functions operator.</p> |

| <i>STRESS TEST #2: Change in IANA functions operator (e.g., as a result of a Separation Process)</i> | | |
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| If ICANN is the Registered Owner of IANA IPR | If PTI is the Registered Owner of IANA IPR | If a trust is the Registered Owner of IANA IPR |
| <p>ICANN will be permitted, by the terms of the IANA Functions Agreement, to terminate the license to PTI. ICANN's bylaws will require it to implement any agreed upon Separation Process which would include the requirement by ICANN to license the IPR to the new IANA functions operator.</p> | <p>PTI's bylaws would provide that in the event of a Separation Process that resulted in a new IANA functions operator, PTI would be required to transfer its assets, including the IPR, to the new IANA functions operator. The IANA Functions Agreement could also include a covenant on the part of PTI to convey the IPR to a third party designated by ICANN to be its replacement as the new IANA functions operator.</p> | <p>The trust terminates its license with PTI.</p> <p>The trust licenses the IPR to the new IANA functions operator.</p> <p>The trust documents must be drafted to provide express instruction to the trustee in the event this situation arises.</p> <p>If trustee does not comply, an accountability mechanism is needed to enforce against the trust.</p> |
| <i>STRESS TEST #3: The trust defaults on its obligations related to IANA IPR in the trust documents; breaches contract(s) with either ICANN or PTI.</i> | | |
| If ICANN is the Registered Owner of IANA IPR | If PTI is the Registered Owner of IANA IPR | If a trust is the Registered Owner of IANA IPR |
| <p>N/A</p> | <p>N/A</p> | <p>The trust documents must be drafted with clear instruction obligating the trustee to transfer title to the IANA IPR to ICANN, PTI or a third party, if there is breach by the trustee of its duties.</p> <p>This may require the interested party beneficiaries to prove the trustee had breached its duties. Typically, this will be the Attorney General of the relevant state. However, depending upon state law, the settlor of a charitable trust or a beneficiary may be able to bring an action for breach of trust.</p> <p>This requires the trust documents to be drafted with</p> |

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| | | dispute resolution mechanism in the event the trustee disagrees with an assertion that it is in breach. |
| STRESS TEST #4: In which insolvency scenario is the IANA IPR most vulnerable to the claims of third-party creditors? | | |
| If ICANN is the Registered Owner of IANA IPR | If PTI is the Registered Owner of IANA IPR | If a trust is the Registered Owner of IANA IPR |
| <p>If ICANN owns the IANA IPR, licenses the IANA IPR to PTI and ICANN becomes the subject of U.S. federal insolvency proceeding, the IANA IPR would become property of ICANN's bankruptcy estate. ICANN's disposal and use of the property would be subject to the restrictions of the U.S. Bankruptcy Code, subject to certain safe harbors in favor of most non-profit corporations, and subject to certain protections in favor of PTI as the licensee of intellectual property belonging to a debtor in bankruptcy.</p> <p>If ICANN owns the IANA IPR, licenses the IANA IPR to PTI and PTI becomes subject to U.S. federal bankruptcy proceedings, PTI's rights to the IANA IPR would become property of PTI's bankruptcy estate, subject to the same restrictions and safe harbors noted above for ICANN, except that the U.S. Bankruptcy Code generally imposes additional restrictions on PTI's ability to retain access to the IANA IPR without ICANN's consent.</p> | <p>If PTI owns the IANA IPR and ICANN becomes subject to a U.S. federal insolvency proceeding, ICANN's bankruptcy will not cause PTI to become a debtor in a bankruptcy proceeding nor will PTI's assets become property of ICANN's bankruptcy estate.</p> <p>If, on the other hand, PTI owns the IANA IPR and PTI itself were to become subject to a U.S. federal bankruptcy proceeding, the IANA IPR would become property of PTI's bankruptcy estate and use of the property would be subject to the restrictions of the U.S. Bankruptcy Code, subject to certain safe harbors in favor of most non-profit corporations.</p> | <p>The trust is unlikely to be able to file a petition for bankruptcy, as it does not engage in any trade or business. But the trust documents should be prepared to make this restriction explicit.</p> <p>If the IANA IPR were held by a trust and either ICANN or PTI were to file a bankruptcy proceeding, it is unlikely that the IANA IPR itself would be property of ICANN's or PTI's bankruptcy estate; however, ICANN's or PTI's rights to the IANA IPR would become property of the bankruptcy estate, except that the U.S. Bankruptcy Code generally imposes restrictions on the ability of ICANN or PTI, respectively, to access the IANA IPR without the trust's consent.</p> |

| <i>STRESS TEST #5: Who will exercise oversight over the usage of the IANA IPR and of the quality of the services provided under the IANA IPR.</i> | | |
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| If ICANN is the Registered Owner of IANA IPR | If PTI is the Registered Owner of IANA IPR | If a trust is the Registered Owner of IANA IPR |
| ICANN would exercise control over PTI's usage of the ICANN-owned IPR through the IANA Functions Agreement, through its control of PTI as its sole member, and through the IANA Functions Review process. | ICANN and the community would exercise oversight indirectly as the sole member of PTI and through the IANA Functions Review process. | The trustee would have to exercise oversight, although it should be able to delegate the responsibility. Quality control and usage guidelines would have to be prepared and embedded in the trust documents. |