

Dear Work Track Four Members,

In consideration of the calls and discussions on September 14<sup>th</sup> and in Abu Dhabi on Financial Evaluations, I decided it might be helpful to provide a few comments and considerations in case they assist in future discussions.

The financial health of a company and the notes to the audited financial statements regarding an auditor's evaluation of an entity's ability to continue as a going concern does not usually extend beyond a one-year timeframe from when the financial statements are dated. As such, a financial evaluation and risk assessment beyond this timeline may be worthy of consideration.

The logic suggesting that by not conducting financial reviews in the first round and that somehow the same level of review is adequate for subsequent rounds is in my opinion, is amiss. Every TLD should provide some type of financial benefit, whether to drive revenues or in the case of brands, decrease expenses or both, and reviewing these plans is key in ensuring each TLD has the necessary financial resources to sustain itself for a given period of time. For example, if the registry's financial plan is flawed and leads to underfunding, then the contract between the Registry and the RSP will default due to a lack of payment, with the TLD failing. Thus, the financial and technical plans work hand-in-hand in safeguarding the safety and security of the Internet. While not trying to take an example out of context, I would also be hesitant to dilute the value and importance of financial evaluations based on an applicant that failed question 48 that now has 14,000 registrations and thought to be profitable without a deeper dive into their activities and how they may have been altered with a financial evaluation. For example, if their financial plan had included marketing costs in year two and three and how this may improve their registration volume of 2,300.

Additionally, based on discussions in Work Track One, the implications of a reduced application fee (from the 2012 round) and increase in risk have been considered. For example, should a floor value on the application fee be set to reflect the significance of owning a unique piece of the Internet and a value set to reflect the level of commitment necessary to own and operate a registry. Repercussions on the security and stability of the Internet if an application fee is set too low have also been raised. While these discussions have not yet concluded, I believe they provide a different perspective on the communities' thoughts on ensuring a TLD's business and financial plans be evaluated to ensure the applicant has a thorough understanding of the financial implications along with the level of commitment required in owning a TLD.

With the first round of applicants now in their third year of operations, the reality is that for the most part, to suggest they have been a financial success would be a tenuous argument. Registration volumes and premium name sales are less than projected which has resulted in decreased revenues on top of discounted prices. Additionally, marketing costs are generally higher than expected. It is premature to assume that because there have not been a lot of failures that the current review process is sufficient. With the expectation of further rounds and/or continuous application windows, the increased level of supply without an associated increase in demand will lead to more TLDs failing. As such, the financial evaluation component should actually grow in importance.

Finally, the 2012 round of applications had no direct comparable data for either applicants to judge their business plan or for ICANN to evaluate the reasonableness of an application. Luckily, this is no longer the case. Data from the first round can be easily applied to the evaluation of new applications in subsequent rounds while allowing the evaluators room to pivot in response to new innovative business

models. Utilizing the experience and data from the first round is not only prudent business practice, but fundamental to safeguarding the Internet, as ignoring the insights gained and the application of their financial implications is contrary to protection ideology.

Signed,

C is for Christa - not cookies in this instance!

