



Update to the Cost Considerations of the New gTLD Program

: Originally posted 24 October 2008

Updated 2 October 2009

Background - New gTLD Program

Since ICANN was founded ten years ago as a not-for-profit, multi-stakeholder organization dedicated to coordinating the Internet's addressing system, one of its foundational principles, recognized by the United States and other governments, has been to promote competition in the domain-name marketplace while ensuring Internet security and stability. The expansion of the generic top-level domains (gTLDs) will allow for more innovation, choice and change to the Internet's addressing system, now represented by 21 gTLDs.

The decision to introduce new gTLDs followed a detailed and lengthy consultation process with all constituencies of the global Internet community represented by a wide variety of stakeholders – governments, individuals, civil society, business and intellectual property constituencies, and the technology community. Also contributing were ICANN's Governmental Advisory Committee (GAC), At-Large Advisory Committee (ALAC), Country Code Names Supporting Organization (ccNSO), and Security and Stability Advisory Committee (SSAC). The consultation process resulted in a policy on the introduction of New gTLDs completed by the Generic Names Supporting Organization (GNSO) in 2007, and adopted by ICANN's Board in June, 2008. The program is expected to launch in calendar year 2010.

This explanatory memorandum is part of a series of documents published by ICANN to assist the global Internet community in understanding the requirements and processes presented in the Applicant Guidebook, currently in draft form. Since late 2008, ICANN staff has been sharing the program development progress with the Internet community through a series of public comment fora on the applicant guidebook drafts and supporting documents. To date, there have been over 250 consultation days on critical program materials. The comments received continue to be carefully evaluated and used to further refine the program and inform development of the final version of the Applicant Guidebook.

For current information, timelines and activities related to the New gTLD Program, please go to <http://www.icann.org/en/topics/new-gtld-program.htm>.

Please note that this is a discussion draft only. Potential applicants should not rely on any of the proposed details of the new gTLD program as the program remains subject to further consultation and revision.

Summary of Key Points

In October 2008, ICANN posted a paper on the cost considerations of the new gTLD program to explain how the \$185,000 evaluation fee for the new gTLD applications was developed: <http://icann.com/en/topics/new-gtlds/cost-considerations-23oct08-en.pdf>. Those costs have been re-estimated with more precise cost data.

The key points of that paper remain:

- The new gTLD implementation will be fully self-funding. Costs are not expected to exceed fees; existing ICANN activities regarding technical coordination of names, numbers and other identifiers will not cross-subsidize this new program.
- The new gTLD policy requires a detailed and thorough implementation process to achieve its goals, and this process is inherently costly.
- Since this is a new program, it is difficult to predict costs or volumes with certainty. A detailed costing process is being used, and costs are in line with historical precedent.
- The evaluation process is intended to be revenue-cost neutral.
- If all cost-related estimates are accurate, there will be no net increase to ICANN's funds as a result of evaluating new gTLD applications; fees will just equal costs. If an excess or shortfall should occur (which will take some time to assess), the community will determine how funds should be handled.
- The primary ICANN fee will be the evaluation fee which is estimated to be \$185,000. Applicants may also be required to pay other fees (paid directly to providers) in cases involving technical issues or disputes. As with existing registries, registries delegated will be required to pay ongoing ICANN registry fees.

Since the new gTLD cost considerations paper was posted, much progress has been made to refine the evaluation process and to complete the implementation plans for the new gTLD program. Although the principles highlighted above remain the same, more information is now available. ICANN staff reviewed this additional information to ascertain whether the \$185,000 evaluation fee is still appropriate. This paper highlights the results of that review, which include:

- Panel costs can now be more accurately estimated based on expressions of interest (EOI) received from prospective panelists.
- A refinement to the internal structure of ICANN is planned to ensure that applications are processed independent of and separate from ICANN's other operations. Some efficiency can be obtained by locking into and paying for setup and fixed costs through committing to consultants and hiring staff, instead of only paying consultants a per application fee. This will require more fixed costs and up-front commitments than originally estimated, but will also reduce per-applicant variable costs. The new structure will help ensure both separation of application information from ICANN's other operations; will position ICANN for more efficient operations and lower costs over time.
- Some tasks require more extensive work than initially anticipated. Some tasks have been more clearly defined, some tasks have been added and other tasks have been

eliminated based on the evolved implementation plans. The recent review of all costs indicate that, while some cost estimates have increased and some have decreased, there is no net increase of costs overall for the program.

- The original expense estimate of US\$185,000 remains valid, and therefore the fee remains the same.

1. Overview and Summary

The primary implications of this New gTLD Program relate to possible improvements in choice and competition as a result of new top-level domain names, but the cost implications, both to ICANN's operations and to gTLD applicants, will be significant. Thus a thorough review of the new gTLD evaluation fee is necessary.

A key implementation guideline of the new gTLD policy is that it should be fully self-funding (costs should not exceed fees).

See: [http://gnso.icann.org/issues/new-gtlds/pdp-dec05-fr-parta-08aug07.htm - _Toc43798015](http://gnso.icann.org/issues/new-gtlds/pdp-dec05-fr-parta-08aug07.htm_-_Toc43798015).

The current fee and expense model which allows ICANN to provide technical coordination of unique identifiers must remain intact for the foreseeable future, and there should be no cross-subsidizing by existing gTLD registrants.

However, the New gTLD Program represents a new activity for ICANN and the costs are difficult to estimate without substantial implementation work. Implementing the breadth of the GNSO policy requirements is complex and requires many evaluation steps. For example, global community concerns must be considered, protection of rights holders must be held, and the likelihood that a new gTLD registry operator has the financial wherewithal and technical resources to stably and appropriately operate a new gTLD registry must be considered. The process requires a thorough implementation of a detailed plan.

There is historical precedence. Beginning in 2003, ten applications for new "sponsored" TLDs were processed, and estimates of costs at the time exceeded \$1,800,000 which included staff costs, direct consulting costs, and outside services including legal expenses. Thus, the costs per application were estimated to have been at least \$180,000 per application.

The new gTLD evaluation fee is estimated to be \$185,000 based on a detailed costing methodology that includes program development costs, fixed and variable application evaluation costs, and risks or low probability event costs.

The impacts of the New gTLD Program on both application fee revenue and expenses may be significant. ICANN's overall costs for evaluating applications could be as much as \$100 million if there are 500 or more applications. Since these expenses and associated fees could be large relative to ICANN's other sources of revenue, it is important to estimate the costs as closely as possible.

With the uncertainties involved, it is possible that ICANN will over-collect or under-collect for this first round; fees received may be greater or less than actual expenses. Noncontentious applications can be handled efficiently and less expensively, but

contentious applications will take longer and cost more. The final determination in fee and cost accounting will take some time, and based on mechanisms for monitoring over-spending and under-spending that will be put in place. At a minimum, ICANN will account for new gTLD fees and expenses, and regularly report on the excess or shortfall. An independent auditor will opine on the accuracy of these reports. The community will then be engaged in determining how any possible excess might be used. Shortfalls will be recovered in future TLD rounds. More analyses and discussions will ensue based on the actual outcome.

Delivering a process to allocate new gTLDs was part of ICANN's initial mandate; it has been broadly considered by the Internet community and approved by ICANN's Board of Directors. ICANN staff has used best practices and outside experts to vet processes and assist in cost estimation. And, while the cost elements of this process are significant and involve some uncertainty, the approach to cost and fees is planned to yield a result consistent with the policy mandate that the New gTLD Program be fully self-funding and deliver a predictable process that produces the right result for the Internet community.

2. Important Financial Principles

Some important principles underlying the development of costs estimating and evaluation fee t include:

Care/Conservatism – ICANN coordinates unique identifiers for the Internet, and particularly important for this context, directly contracts with generic top-level domain registries and cooperates with country code registries around the world in the interest of security, resiliency and stability of the DNS. There are more than 170,000,000 second-level domain registrations that provide for a richness of communication, education and commerce, and this web is reaching ever more people around the world. ICANN's system of contracts, enforcement and fees that supports this system, particularly for the more than 100 million registrants in gTLDs, must not be put at risk. The New gTLD Program must be fully self-funding.

Further, this principle of care and conservatism means that each element of the application process must stand up to scrutiny that will yield a result consistent with the community-developed policy. While process and cost have been thoughtfully considered throughout the process design, absolute cost-minimization is not the overriding objective. Rather, the priority is process fidelity.

Up-front payment/incremental consideration – ICANN will collect the entire application evaluation fee at the time an application is submitted. This approach avoids a situation in which the applicant partially completes the application process, then may not have the resources to continue. It also ensures that all costs are covered. Still, if for some reason the applicant withdraws its application during the process, ICANN will refund a prorated amount of the fee to the applicant.

Having a uniform evaluation fee for all applicants provides cost certainty about ICANN fees for all applicants. Further, it ensures that there is no direct cost penalty to the applicant for going through a more complex application (except, when necessary, fees paid directly to a provider). A single fee, with graduated refunds and with provider payments (for example, dispute resolution providers) made directly to the provider seems to offer the right balance of certainty and fairness to all applicants.

Fee levels and accessibility – Concern has been expressed that the fee amounts might

discourage applications from developing nations, not-for-profits, special groups, or others with less access to financial resources. These concerns are taken seriously, and can be explored in the future for possible financial assistance or fee reductions. However, this goal must be balanced with the principle of conservatism that first-round fees must fully fund first-round application costs. Concern has also been expressed that even well-intentioned fee reductions or aid programs offered directly by ICANN could well be the subject of gaming in which a commercial entity could put a token presence in a locale where fees were reduced, or portray a new registry as an expression of some community interest where none in fact exists.

Although no practical method of ICANN financial assistance or fee reductions was identified for the first round of new gTLD applications, an appropriate mechanism might be defined for subsequent rounds. If staff can identify sources for potential grants, financial assistance or match-making opportunities for applicants from qualified developing nations and indigenous and minority peoples in need, the results will be made publicly available.

Estimating methodology – The process for evaluating a new gTLD application was further analyzed and subsequently divided into 6 phases, subdivided into 24 major steps, and then further subdivided into 108 individual tasks. (see exhibit 4 below). The staff time to complete each task and the external consultant/panel costs to perform each task were also estimated. Other costs such as setup, training, integration, and program management were also included in the estimates. These fixed costs were divided by the expected number of applications. Next, probabilities were estimated to move an application from each step to the next, resulting in an average cost per application.

Further, whenever possible, sensitivity analyses and reasonableness checks were applied. Answers and internal discussions to probing analytical questions helped further refine lend credibility to the results. Some of the questions considered included:

- How much would the total processing cost be if an application went through the most complex path?
- How much would the total processing cost be if an application went through the simplest path?
- Could the specific task be accomplished by the assigned person in a reasonable amount of time (that is, 8 to 10 hours per day, 5 to 6 days per week).
- Is time provided for supervision, training, on boarding, project management, and oversight?
- Are all support costs such as rent, furniture, supplies, communications, and computer support properly estimated?
- Is there consistency bias in which minor, but consistent conservatism (or liberalism) across a great many parameters may yield results that in total make the overall results overly conservative (or overly liberal)?
- How are fixed versus variable costs estimated? If a process is routine and repetitive, is it possible to perform it more efficiently with a hired staff at a lower rate than with a consultant working on a project basis?
- What is the impact of increasing efficiency in processing applications over time?

- Is quality control properly considered?
- What is the impact on the number of applications? If the number is significantly more than 500, what happens? If significantly less?

3. Cost Elements

The primary fee associated with the new gTLD program is the application evaluation fee, which is estimated to be \$185,000 per application. The fee is based on a detailed cost estimation process that includes the following components:

1. **Development costs.** Development costs are those associated with the project that is the implementation of the GNSO policy. The development costs consist of all the program costs incurred from the date of the GNSO recommendation in October 2007 until the launch of the New gTLD Program. The costs include ICANN internal staff time, travel and meeting for new gTLD efforts, professional services and overhead costs. These costs amount to approximately \$13,475,000 (or \$26,950 per application if amortized over 500 applications).
2. **Application processing costs.** Processing costs include all costs required to process applications from the day of application submittal until final delegation (or rejection) of the string into the root zone. Processing costs include fixed costs such as setup, integration, and one-time communication costs as well as variable costs required to pay staff and panelists to evaluate each application. These costs amount to approximately \$48,900,000 and consist of \$12,400,000 in fixed costs plus \$36,500,000 in variable costs (or \$97,800 per application).
3. **Risk costs.** Uncertain costs and costs that are harder to predict, or risks, include unanticipated costs such as variations between estimates and actual costs incurred. These costs expected value amount to \$30,000,000, or \$60,000 per application.

These cost elements are shown in the Exhibit 1 and are described in more detail in the sections that follow.

Cost Elements	Total Costs	Costs / application (assumed to be 500)
3.1 Development Costs	13,475,000	\$26,950
3.2 Application Processing Costs	\$48,900,000	\$97,800
<i>Application Processing Costs -- Fixed</i>	<i>\$12,400,000</i>	<i>\$24,800</i>
<i>Application processing costs -- Variable</i>	<i>36,500,000</i>	<i>\$73,000</i>
3.3 Risk Costs	\$30,000,000	\$60,000
Total	\$92,375,000	\$184,750

Exhibit 1: Cost Elements

3.1 Application Evaluation Fee – New gTLD Program development costs

The first cost element in the total cost of evaluating new gTLD applications is the cost associated with development of the implementation program itself. This effort encompassed fine tuning of all the GNSO policy points, clarifying important implementation details, and setting up systems and procedures that honor the policy but also satisfy the practical requirements of a workable processing system. A thorough review of historical and estimated program development costs resulted in total costs of approximately \$13,475,000. This included a person-by-person review of staff hours on the implementation program, review of invoices and estimates of outside services and consultants on the program, travel expenses, and relevant IT costs and overhead. Exhibit 2 shows a summary of the development costs.

	FY08	FY09	FY10	Total
Personnel	\$2,795,000	\$4,730,000	\$540,000	\$8,065,000
Travel & Meeting	\$1,274,000			\$1,274,000
Professional Services	\$50,000	\$1,298,000		\$1,348,000
Adminstration/overhead	\$1,075,000	\$1,573,000	\$140,000	\$2,788,000
Total	\$5,194,000	\$7,601,000	\$680,000	\$13,475,000

Exhibit 2: Development Costs

The development costs are sunk costs and thus will not be incurred in the future during application processing. However, because they are real costs in making New gTLDs available, they are associated with the application fee. To recapture these costs from the New gTLD Program, we plan to recover \$26,950 per application in the first round (\$13,475,000/500 applications = \$26,950). If there are over 500 applications in the first round, i.e., if all the development costs are absorbed, the fee will be eliminated in the second round. If the costs are not fully absorbed, a fee for development costs will continue in the second round. Since these historical New gTLD Program development costs have already been expensed, this element of the evaluation fee will be used to increase ICANN's Reserve Fund, which will help ICANN attain strategic goals for Reserve Fund size, and in effect repay funds that came from ICANN's general budget for New gTLD Program development.

Considerable discussion has focused on what point in time would be the correct starting point from which to start counting costs for the new gTLD program. This analysis assumes that implementation costs are counted since October 2007, when the GNSO recommended the new gTLD policy. Approximately \$2 million of costs involved in supporting the new gTLD policy development through the Generic Names Supporting Organization and other organs of ICANN's policy-making processes have not been included in the development costs as they were incurred before the GNSO formal recommendation.

3.2 Application Evaluation Fee – costs to process an application

The second cost element for the new gTLD application evaluation fee includes the costs to process and evaluate applications. The new gTLD policy identifies a set of policy

outcomes and implementation guidelines that require detailed information from applicants and a detailed evaluation of that information. For example, the process for handling new gTLD applications must assess possible string confusion and contention, technical and business capacity to run a registry, and more. The tasks required to process applications, per the GNSO policy and subsequent implementation development efforts, are numerous and complex. Over the past several months, staff members have developed, and recently reviewed, the steps and tasks required to complete the process thoroughly.

The steps are sequenced to make the least contentious applications go through the process quickly, and to handle more complex applications in a uniform and appropriate way. To ensure that the overall costs are minimized and yet sufficient to support the process adequately, two approaches to costs have been developed: Variable Costs and Fixed Costs.

Variable costs are those that vary depending on the number of applications that require a given task to be completed. For example, a panelist charged with technical evaluation is paid only if he or she receives an application for review. Another example is the labor costs (plus appropriate overhead factors) associated with an ICANN staff member to perform a specific task for a given application, or a per-application amount of time to review the results of a panel's score on an application and to post the results of that score.

Fixed costs include one-time costs incurred for the evaluation program and are not associated with an individual application. These costs include evaluation panelist integration costs such as training of evaluation panelists before receiving applications for review.

New gTLD evaluation team

As described in the adopted FY10 Operating Plan and Budget, the plan for processing applications was refined this year to provide for a separate group within ICANN that will focus exclusively on processing new gTLD applications. This group will have offices, staffing, and support systems. This plan ensures that applicant information is secure and also provides more efficient mechanisms for the new gTLD process. The general approach for creating this group is to minimize the growth of ICANN's permanent headcount, and use a global network of consultants to provide specific expertise necessary for application processing. Exhibit 3 shows the organization chart for the ICANN new gTLD applicant processing group.

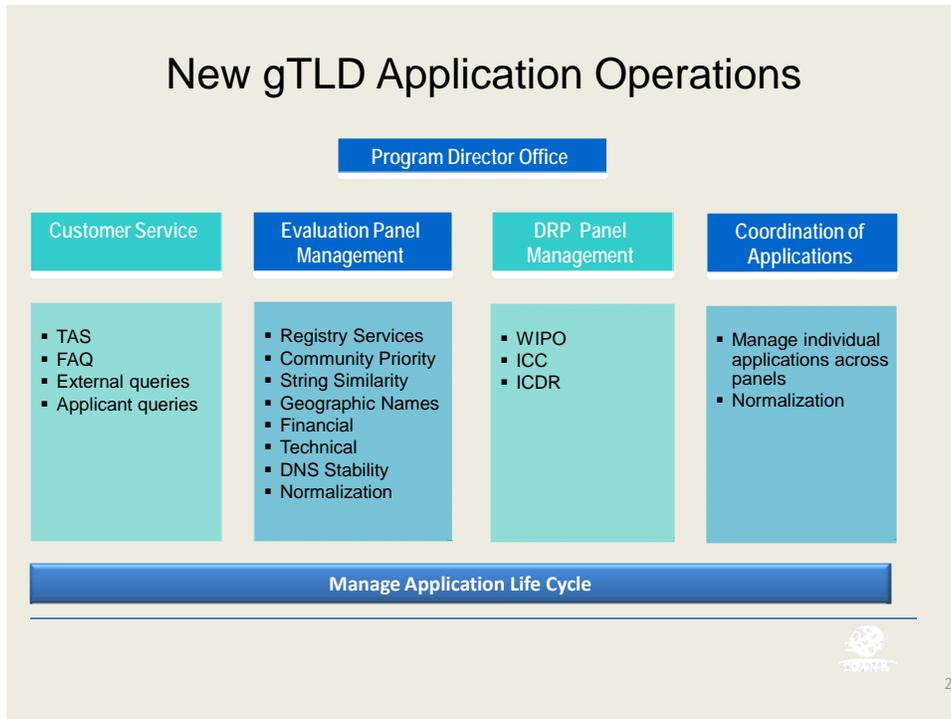


Exhibit 3: Application Processing Organization

Detailed cost estimating

As previously highlighted, to manage the processing of applications, a detailed program list was developed consisting of 6 phases, 24 steps and 108 tasks. The list of phases includes application submission, initial evaluation, extended evaluation, dispute resolution, string contention, and approval/delegation. These phases were subdivided into discrete steps to facilitate management of outside panelists and staff activities. For example, the 6 steps in the initial evaluation phase are titled:

- Financial capability
- Technical and Operational Capability
- Registry Services evaluation
- DNS stability check
- String Similarity check
- Geographical Names inquiry

Exhibit 4 shows how the 6 phases, 24 steps and 108 tasks may make up the new gTLD application evaluation process.

13 TASKS APPLICATION SUBMISSION 3 STEPS	
1 Setup program management activities	S1 Project Management
2 Applicant Registration including Identity	S1 Application Submission
3 In	
32 TASKS INITIAL EVALUATION PHASE 6 STEPS	
4 Pa	
5 Su	
14 Conduct background checks, Proof of Good Standing, etc	S4 Due Diligence
15 Run algorithm, conduct audible and conceptual	S4 String Similarity
13 Tr	
37 TASKS EXTENDED EVALUATION PHASE 5 STEPS	
46 Obtain approval to proceed to EE	S10 Financial Capability
16 Ru	
47 Request clarifications from IE analysis	S10 Financial Capability
48 Ev	
8 TASKS DISPUTE RESOLUTION PHASE 4 STEPS	
17 Cr	
49 N	
18 No	
50 R	
83 Linking Objections with Applications and/or	S15 String Confusion
84 Linking results	S15 String Confusion
85 Linking Objections with Applications and/or	S16 Infringement of rights
86 Li	
9 TASKS STRING CONTENTION PHASE 2 STEPS	
45 Po	
82 P	
87 Li	
88 Li	
89 Li	
90 Li	
91 Reaffirm contention sets	S19 String Contention
92 Provide notice to parties	S19 String Contention
93 Conduct review	S19 String Contention
9 TASKS APPROVAL & DELEGATION PHASE 4 STEPS	
95 P	
96 P	
97 P	
98 C	
99 P	
100 Negotiation	S21 Contract
101 Contract execution	S21 Contract
102 Package is prepared for Review/Approval	S22 Final Approval
103 Final Approval	S22 Final Approval
104 Coordination for testing	S23 Predelegation Check
105 Perform test	S23 Predelegation Check
106 Coordination for testing	S24 Delegation
107 IANA Test	S24 Delegation
108 Delegation	S24 Delegation

Exhibit 4: Draft list of tasks, steps, phases

For each task, a cost estimate was performed by estimating the number of labor hours required from the relevant staff person in the new gTLD operations team as well as the estimated costs to be charged per application from outside consultants/panelists. Some tasks also required other ICANN staff time (e.g., legal oversight and review of contracts), and these costs were included in the total task costs. Recently proposals were received from consultants in response to a widely broadcasted RFP, and these proposals provided pricing for various components of the evaluation process (e.g., technical evaluation, geographic names evaluation). The pricing information provided an important check on the validity of the cost estimates.

Probability factors and expected values

A uniform evaluation fee is being set to provide certainty to applicants. However, this uniform fee is not an estimate of the cost of executing all possible application steps. Doing so would overstate the cost to all. Some applications will be simpler, some more complex. To factor in these aspects of the application evaluation, a standard expected value technique was applied to the cost estimations.

Expected value is determined by estimating the likelihood that each of the 24 steps will actually be executed for the pool of applications in the first round. Estimates of the probability for each step were based on staff experience and judgment. This probability is multiplied by the cost to perform the tasks within that step to obtain the expected value of that step. The total of all expected values equals the expected value for processing an application.

Exhibit 5 shows the summary of the step probabilities by phase, and the expected value for each phase. This scenario shows all applicants being processed through initial evaluation, 20% requiring extended evaluation, 9% requiring dispute resolution, 17% requiring string contention, and 77% requiring approval and delegation. The total expected value of the variable costs for processing a new gTLD application is \$73,000.

Phase	Probability Summary	Expected Value
Application Submission	100%	\$10,000
Initial Evaluation	100%	\$42,000
Extended Evaluation	20%	\$5,500
Dispute Resolution	9%	\$300
Community Priority	17%	\$200
Approval and Delegation	77%	\$15,000
Total		\$73,000

Exhibit 5: Probabilities and Expected Values

Fixed costs

One type of fixed costs is considered to be onboarding costs. Approximately \$1,630,000 of costs are estimated for this effort. These are the costs that ICANN will be required to spend for panelists to ensure they are properly prepared to process applications upon launch. They include training, travel, systems setup, and retainers for consultants, and they do not depend on the number of applications evaluated. The EOIs recently received provided the basis for these cost estimates.

A second set of fixed costs includes costs incurred before the launch of the New gTLD Program. These costs are estimated at nearly \$10,700,000 and include *one time set up costs such as economic studies, security analyses, scaling studies, development of the TAS applicant interface system and ongoing costs such as communication, and translations of critical documents, , facility costs, training, and administrative and travel support for staff.* Many of these fixed costs are expected to be lower in future gTLD rounds. Based on this methodology, the cost to process an application, including both fixed and variable components and assuming 500 applications, is \$97,800.

3.3 Application Evaluation Fee – uncertain/harder to predict cost considerations

The final component of the application evaluation fee is the set of costs that are most uncertain and hardest to predict. Given the first-time undertaking of a new process of

this magnitude it is likely there may be significant, unanticipated costs that will be incurred such as hard to predict costs, or risks.

Examples of these risks/difficult-to-estimate costs include:

- What would happen if many more or many fewer applications were received than anticipated?
- How simple or complex will the average application be (dictating how many process steps must be executed for each application)?
- Have expected fees by outside consultants been estimated correctly?
- Are the time estimates for each task accurate?
- What happens if additional tasks are required?
- Have expenses for support functions such as information technology systems, legal support, contract support, and the like been fully identified?
- Will additional external costs be required to shore up defense against unanticipated events?

Although these costs must be included (to be true to the core principle of full funding of the New gTLD Program and no cross subsidizing), it is difficult to ascertain the categories or types of costs these might become and what amounts to include.

Nevertheless, to provide a reasonable estimate of these cost elements, ICANN engaged experts to assist. First, a request for proposal was sent to known experts in risk management, including risk assessment and risk measurement. After careful evaluation of the proposals, ICANN selected Willis Inc., the world's third largest insurance broker and risk consultant with offices in over 100 countries. In particular the Willis Enterprise & Risk Finance (WERF) practice, which is the center of excellence within Willis for risk quantification and risk modeling, performed a study to assess and measure the risk component, or uncertain/hard-to-predict cost components of the New gTLD Program.

Using a scenario modeling quantitative technique that incorporates Monte Carlo simulation modeling and regression analysis, the Willis team identified risk elements and calculated the probabilities and severity of impact for each risk element. The analysis generated a risk profile map for the overall New gTLD Program. The quantitative result of the analysis estimated a risk cost of \$30,000,000, which accounts for uncertainty at the 80% level of confidence. At 500 applications, the uncertain/harder-to-predict costs, or risk, per new gTLD application is \$60,000.

3.4 Sensitivity analyses

To further refine these estimates, sensitivity analyses and reasonableness tests were applied throughout the development efforts. A few of those analyses are summarized here.

Number of applications expected – To amortize fixed costs over all applications and to assist in building a scalable process, the number of applications per round must be estimated. We have assumed that there will be 500 applications in the first round. This volume assumption is based on several sources, including a report from a consulting economist, public estimates on the web, oral comments at public meetings, and off-the-

record comments by industry participants. While the volume assumption of 500 applications is consistent with many data points, making a certain prediction is not feasible. Within a range, sensitivity analyses indicate that the higher costs (for example, development costs not fully recouped) with fewer than the expected number of applications might be offset by lower costs (for example, risk costs) in other elements. This is also true if the actual number of applications is greater than 500. The risk is that application processing costs would again be higher than anticipated, as ICANN would need to bring in more outside resources to process applications promptly, thus driving the variable processing costs higher. In this case, ICANN would be able to pay for these higher expected costs with greater-than-expected recovery of fixed-cost components (historical program development and other fixed costs), thus ameliorating this element of risk.

More and less complex application process – If an application traveled the most complex path, it would be processed through every extended evaluation type, undergo every dispute resolution step, and be reviewed for both types of string contention. This outcome is unlikely, but the question of how much would it cost to incur costs at every task level must be asked. The estimating model indicates \$210,000. Likewise, if an application passes initial evaluation and skips all extended evaluation steps and dispute steps, it would incur only some costs. The estimating model indicates \$178,000. This is a fairly narrow range of costs, largely because most of the fixed costs are expended under any scenario, and additional costs/fees associated with dispute resolution are paid directly to the dispute resolution provider by the applicant.

3.5 Other fees

Other fees are also relevant to the new gTLD applicant. For example, if the application goes to technical services evaluation, objection and dispute resolution processing, or string contention, the applicant may need to pay additional fees to various service providers. These fees, however, do not impact estimated costs of approximately \$185,000 as they would be separately incurred by the applicant.

In addition, as is the case for all existing generic registries, ongoing registry fees are paid to ICANN based on contractual agreements. Once a new gTLD is delegated and in operation, it will also be subject to registry fees. These ongoing registry fees would pay for additional support required for new TLDs, including compliance, registry liaison, possible increased registrar activity, and possibly other registry support activities. These fees, their relationship with other ICANN fees, and the uses for these fees will be handled in the same way registrar fees are handled today, through the ICANN annual planning and budgetary process. Again, these fees have no impact on the \$185,000 application evaluation fee as costs are incurred after a gTLD string has been delegated into the root zone.

4. Summary

Implementing a program for processing new gTLD applications according to the policy proposed by the GNSO, is complex. As highlighted throughout this analysis, accurate cost estimating is a challenge as this is a new and complex program. ICANN has taken a detailed and thorough approach to estimating program development costs, processing costs and uncertainty costs associated with this new program, and consistently used a set of principles in applying the estimation methodology. The results have been tested with sensitivity and other analyses, and appropriate expertise has been retained. A

recent review confirmed that the best estimate of first-round costs for the new gTLD application fee is \$185,000.

An overarching financial directive for implementing the new gTLD policy is that the implementation program be fully self funding, and no more. Great care has been taken to estimate costs with an eye toward ICANN's previous experience in TLD rounds, the best professional advice, and detailed and thorough review. ICANN will provide community reporting regarding fees and expenses as the implementation round progresses, and handle any surplus or deficit with community consultation.