

RATIONALE FOR ICANN BOARD'S CROSS-OWNERSHIP DECISION

I. Introduction

When ICANN was formed in 1998, one of its primary purposes was to promote competition in the domain name system, which, prior to that date, consisted of a single entity (Network Solutions, Inc.) that operated the .COM, .NET, and .ORG registries and also was the sole registrar for those entities. The memorandum of understanding that ICANN signed with the United States Department of Commerce contained the following provision:

This Agreement promotes the management of the DNS in a manner that will permit market mechanisms to support competition and consumer choice in the technical management of the DNS. This competition will lower costs, promote innovation, and enhance user choice and satisfaction.

<http://www.icann.org/en/general/icann-mou-25nov98.htm>. ICANN's Bylaws and other foundational documents articulate that the promotion of competition in the registration of domain names is one of ICANN's core missions. *See* ICANN Bylaws, Article 1, section 2.6.

ICANN has created significant competition at the registrar level, which has resulted in enormous benefits for consumers. Until recently, however, ICANN had not taken steps toward fostering meaningful competition at the registry level. The material below summarizes the Board's significant actions on cross-ownership of registries and registrars and the major proposals the Board considered. Below also describes the Board's analysis and reasons for deciding to permit cross-ownership under the circumstances described in the 5 November 2010 resolution. *See* <http://www.icann.org/en/minutes/resolutions-05nov10-en.htm>.

II. History of the Board's Consideration of Cross-Ownership

This section sets forth a history of significant Board consideration of the subject of cross-ownership of registries and registrars.

- Prior to 2010, the ICANN Board considered the issue of cross-ownership on numerous occasions, recognizing, however, that no official policy was ever developed by the ICANN policy development making bodies.

Whether ICANN permitted cross-ownership of registries and registrars, and to what degree, was therefore determined contractually. The contractual provisions were not uniform, though some barred registries from owning more than 15% of any ICANN-accredited registrar. The original 15% limitation was the product of negotiation as opposed to any policy development process.¹ Throughout the period that ICANN was limiting for some registries the ability to have ownership interests in registrars, ICANN never restricted registrars from owning interests in registries and, in fact, several registrars did own interests in registries.

- Over time, and as ICANN’s development of new gTLDs presented the need for more diverse business models in the domain name marketplace, and the community expressed interest in revisiting cross-ownership contractual limitations, the Board began to consider the issue of registry/registrar cross-ownership.
- ICANN initially commissioned an economic study to address issues relating to Vertical Integration and the effects of eliminating restrictions. *See* 23 October 2008 Report from CRA International <http://www.icann.org/en/topics/new-gtlds/crai-report-24oct08-en.pdf>.
- At the 22 June 2009 ICANN meeting in Sydney, Australia, the ICANN Board conducted a lengthy workshop entitled “Vertical Integration Between Registries and Registrars – The Economic Pros and Cons,” which included presentations by economists and outside legal counsel. <http://syd.icann.org/files/meetings/sydney2009/presentation-vertical-separation-22jun09-en.pdf>.
- At the 27 October 2009 ICANN meeting in Seoul, South Korea, the Board again discussed cross-ownership. <http://sel.icann.org/node/6768>.

¹ The negotiations occurred among ICANN, Network Solutions, Inc. (now VeriSign), and the United States Department of Commerce, addressing the fact that Network Solutions was, at the time, the sole registry and registrar for .COM, .NET, and .ORG. ICANN was in the process of creating competition within the registrar market, and Network Solutions was required to separate its registrar operations from its registry operations. The result of the negotiations was that Network Solutions was permitted to own only 15% of the surviving registrar business (and Network Solutions agreed that it would no longer serve as the operator for .ORG).

- On 28 January 2010, in response to a request from the community, the Generic Names Supporting Organization (the “GNSO”) Council decided to initiate a policy development process on cross-ownership between registries and registrars on an expedited basis.
<http://gnso.icann.org/resolutions/#201001>.
- At the 12 March 2010 ICANN meeting in Nairobi, Kenya, the Board passed a resolution (<http://www.icann.org/en/minutes/resolutions-12mar10-en.htm#5>) indicating that, as a default position, no cross-ownership would be allowed in the new gTLD program but that if the GNSO were to develop a policy recommendation on the subject prior to the launch of new gTLDs, the Board would consider that policy. This “default” position was intended to encourage the community to develop a policy so that the Board would not have to address the issue on an implementation level.
- In May 2010, ICANN published version 4 of the Draft Applicant Guidebook, which included a note that the Board encouraged the GNSO to recommend policy on this issue, and that the Board would review and revisit the issue again if the GNSO did not submit recommendations in time for launch of the new gTLD program. <http://www.icann.org/en/topics/new-gtlds/comments-4-en.htm>.
- At the 22 June 2010 meeting in Brussels, Belgium, the Board again discussed cross-ownership. <http://brussels38.icann.org/node/12470>.
- On 12 August 2010, the public comment period on the GNSO’s initial report on cross-ownership ended. https://st.icann.org/data/workspaces/vert-integration-pdp/attachments/vertical_integration_pdp:20100818171812-0-28944/original/Summary%20of%20public%20comments%20for%20Initial%20Report%20on%20VI_rev%204.pdf.
- On 18 August 2010, the GNSO submitted an initial report, offering the Board multiple proposals on cross-ownership that were diametrically opposed. https://st.icann.org/data/workspaces/vert-integration-pdp/attachments/vertical_integration_pdp:20100818172144-0-27930/original/Revised%20Initial%20Report%20Vertical%20Integration%20PDP%20WG%2018%20Aug%202010%20Final.pdf.
- In response to the Board’s request per its resolution passed on 25 September 2010 (<http://www.icann.org/en/minutes/resolutions-25sep10->

[en.htm#2.11](#)), on 8 October 2010, the GNSO informed the Board that it was unable to reach a consensus on any of the proposals it had submitted. <http://gns0.icann.org/mailling-lists/archives/council/msg09754.html>.

- On 5 November 2010, the Board adopted its final resolution on the issue of cross-ownership. <http://www.icann.org/en/minutes/resolutions-05nov10-en.htm>. The Board concluded that – so long as certain restrictions were put into place on the conduct of registries and registrars, specifically as they relate to data, and so long as competition review remained available in the event of concerns regarding market power – there was no economic support to restrict, on an across-the-board basis, the ability of registries to hold ownership interests in registrars, and vice versa.
- On 12 November 2010, ICANN published the Proposed Final Applicant Guidebook including language conforming to the Board’s 5 November 2010 resolution. (<http://www.icann.org/en/topics/new-gtlds/draft-rfp-clean-12nov10-en.pdf>). Further, part of the Proposed Final Applicant Guidebook is the November 2010 Draft gTLD Agreement, which includes a new Specification 9 entitled the “Registry Operator Code of Conduct.” See <http://www.icann.org/en/topics/new-gtlds/draft-agreement-specs-clean-12nov10-en.pdf>

III. The Board’s Analysis of Cross-Ownership

A. Why the Board is addressing this issue now.

- ICANN’s mission statement and one of its founding principles is to promote competition. ICANN has created significant competition at the registrar level, which has resulted in enormous benefits for consumers. To date, ICANN has not created any meaningful competition at the registry level.
- The Board sought to permit diversification of business models, especially for the new gTLD program.
- Community members sought re-evaluation of cross-ownership limitations in light of new gTLD program.
- The Board wanted to create greater certainty in the domain name marketplace by encouraging the bottom-up policy development

process to develop policy on cross-ownership, but no such policy has been developed or proposed.

B. Major Cross-Ownership Proposals Considered by the Board

The GNSO considered a large number of proposals on cross-ownership, which it distilled into six proposals that it submitted to the Board.

https://st.icann.org/data/workspaces/vert-integration-pdp/attachments/vertical_integration_pdp:20100818172144-0-27930/original/Revised%20Initial%20Report%20Vertical%20Integration%20PDP%20WG%2018%20Aug%202010%20Final.pdf. Those six proposals are summarized in sections 1-6 below, and are listed in order from the most restrictive on cross-ownership to the least restrictive. Economists Salop and Wright submitted a seventh proposal to the Board, which is summarized in section 7 below. None of the proposals reflect a consensus opinion.

1. DAGv4

The DAGv4 proposal represents a per se prohibition against cross-ownership of registries and registrars, with only limited exceptions. For example, a registrar or an affiliated entity is allowed up to a 2% ownership stake in a registry. A registrar or its affiliate may not hold a registry contract, nor may a registry entity control a registrar or its affiliates. Further, registries may not distribute names in any TLD. *See* GNSO's Revised Initial Report, pages 18-19.

- A registrar entity or their affiliate (another company with whom the registrar has common control) may not directly hold a registry contract. This applies regardless of the TLD(s) in which the registrar is accredited.
- A registrar entity or their affiliate may have beneficial ownership of up to 2% of the shares in a registry company. Beneficial ownership is a form of ownership in which shares have: (a) voting power, which includes the power to vote, or to direct the voting of the shares; and/or (b) investment power, which includes the power to dispose of or to direct the disposition of the shares.
- In no circumstance may a registry entity control a registrar or its affiliates, or vice versa.

- Affiliates of the registry entity may not distribute names in any TLD -- as either a registrar, reseller or other form of domain distributor.
- No registrar, reseller or other form of domain distributor (or their affiliates) may provide registry services to a registry entity. Registry services are defined in Specification 6 to the registry contract.
- Names can only be registered through registrars.
- Registries can set accreditation criteria for registrars that are reasonably related to the purpose of the TLD (*e.g.*, a Polish language TLD could require registrars to offer the domain via a Polish language interface).
- Participating registrars must be treated on a non-discriminatory basis.
- Registries can register names to themselves through an ICANN-accredited registrar.

2. **IPC**

The IPC proposes three models of .brand exceptions to restrictions on cross-ownership of registries and registrars. Under the .brand Single Registrant – Single User (“SRSU”), the .brand Registry Operator (the “bRO”) is the registrant and user of all second-level domain names. Wholly-owned subsidiaries and otherwise affiliated companies could register and use second-level names. Under the .brand Single Registrant – Multiple Users (“SRMU”), the bRO is the registrant for all second-level names and may license them to third parties that have a pre-existing relationship with the brand owner (*e.g.*, suppliers) for other goods/services. Under the .brand Multiple Registrant – Multiple User (“MRMU”), the bRO and its trademark licensees are the registrants and users of all second-level names. *See* GNSO’s Revised Initial Report, pages 59-66.

Seven additional criteria for these .brand exceptions to cross-ownership apply, including:

- The trademark must be identical to the .brand string and the subject of registrations of national effect in at least three countries in three ICANN regions;
- Trademark owners whose principal business is to operate a domain name registry, register domain names, or resell domain names are ineligible;
- Under MRMU, the bRO delegates second-level names subject to trademark license agreement quality control provisions that allow at-will termination of registrations; and
- Brand TLDs with second-level names registered to unrelated third parties are ineligible.

A new gTLD registry that satisfies the criteria: (a) could control an ICANN-accredited registrar solely for registrations in that TLD; (b) would not need to use an ICANN-accredited registrar for registrations within the TLD; and/or (c) could enter into arrangements with a limited number of ICANN-accredited registrars for registrations in that TLD.

3. **RACK+**

The RACK+ proposal permits cross-ownership between registries and registrars, as long as co-owned entities possess less than 15% ownership interest in the other. *See* GNSO’s Revised Initial Report, pages 45-48.

- This cross-ownership approach allows both registry operators and registrars to invest in domain name wholesale and retail businesses. The rationale is to avoid creating ownership positions that provide access to registry data for registrars.
- This group does not recommend that a new contract regime be established between ICANN and registry backend services providers. Rather, ICANN could enforce this cross-ownership rule through the registry operator contract.
- Cross-ownership caps should be supported by appropriate provisions addressing “affiliation” and “control” to prevent gaming against the caps.

- Registries must use only ICANN-accredited registrars in registering domain names and may not discriminate among accredited registrars.
- Equivalent access and non-discrimination principles should apply to all TLD distribution.

4. **JN2**

The JN2 proposal permits cross-ownership between registries and registrars, as long as cross-owned entities are not in a position of controlling the other or possessing a greater than 15% ownership interest in the other. The JN2 proposal contains a definition of affiliation, which includes both ownership (>15%) and control (direct or indirect) and allows exceptions for single registrant TLDs, community TLDs and orphan TLDs. *See GNSO's Revised Initial Report, pages 34-38.*

- It restricts registry operators and their affiliates from distributing names within the TLD for which the registry operator or its affiliate serves as the registry operator.
- It allows registrars (and their affiliates) to be registry operators provided they agree not to distribute names within a TLD for which they or their affiliates serve as the registry operator.
- Restrictions do not apply to back-end registry service providers (RSPs) that do not control the policies, pricing or selection of registrars.
- After 18 months, any restricted RSP may petition ICANN for a relaxation of those restrictions depending on a number of factors.
- Cross-ownership limitations extend to registrar resellers for 18 months. After that, market protection mechanisms must be in place.
- Registry operators may select registrars based on objective criteria and may not discriminate among the ones they select.

5. **CAMv3**

The Competition Authority Model (“CAMv3”) prohibits cross ownership between registries and registrars as originally set forth in the ICANN Board’s Nairobi resolution, but allows up to 100% cross ownership under the rules of a waiver/exemption process. It

allows referral to national competition authorities to resolve questions about market power and consumer protection. *See* GNSO's Revised Initial Report, pages 49-58.

- Those entities that wish may request an exemption/waiver. These would be forwarded to a standing panel entitled the Competition/Consumer Evaluation Standing Panel (the "CESP"). This panel would be given a set of guidelines for evaluating the applications. If the CESP "quick look" or initial analysis raises no competition or consumer protection concerns, the exemption/waiver would be granted.
- If the CESP initial analysis raises competition or consumer protection concerns or indicates a need for a more detailed or extended review, then ICANN shall refer the matter to the appropriate national competition and/or consumer protection agencies.
- For those entities that are granted a waiver/exemption, ICANN will amend registration authority agreements to include rules designed to prevent self dealing or harm to third parties such as registrants and Internet users.
- The CAM model proposes a three tiered approach toward contractual compliance: (1) ICANN's normal compliance efforts; (2) an annual audit; (3) an expanded Post Delegation Dispute Resolution Procedure (the "PDDRP") for third parties to initiate their own administrative remedy, coupled with a strict three strikes rule for repeat offenders.

6. Free Trade

The Free Trade Model proposes to discard limits on cross-ownership entirely. *See* GNSO's Revised Initial Report, pages 39-44.

- It discards cross-ownership restrictions on registrars, registries, and registry service providers ("RSPs").
- Equivalent access for registrars is required with registries allowed to self distribute so long as they are bound by the RAA and pay required registration fees.
- RSPs are required to be accredited by ICANN for technical sufficiency. RSPs will be bound by terms, conditions, and restrictions similar to those

imposed on registry operators through their contractual agreement with each registry operator.

- This model removes the need for exceptions like Single Registrant – Single User (“SRSU”), Single Registrant – Multiple Users (“SRMU”), and Orphan TLDs.
- This proposal assumes ICANN’s funding of contractual compliance resources will match the demands of the new gTLD expansion.
- Requirements to monitor, enforce and ultimately prevent malicious or abusive conduct are directed at the conduct at issue rather than cross-ownership limitations.

7. **Salop & Wright**

The Salop and Wright Model permits cross-ownership, but if the share of the registrar or the registry that applies to acquire a significant ownership interest in any new or existing entity at the other vertical level exceeds the relevant market share threshold, then ICANN will notify the appropriate governmental competition agencies. *See* <http://www.icann.org/en/topics/new-gtlds/registry-registrar-separation-vertical-integration-options-salop-wright-28jan10-en.pdf>. ICANN will place the application on hold for a period not to exceed 45 days. This matches the existing waiting period for new registry services that might raise competitive issues. *See* <http://www.icann.org/en/registries/rsep/rsep.html>. Salop and Wright recommend two possible next steps:

- If the agency or agencies notify ICANN and the registry or registrar during that 45 day period that the acquisition of the entity at the other vertical level may violate its competition laws, ICANN will place the application on hold for another period not to exceed 120 days to allow the agency or agencies and the applicant to resolve any concerns. At the end of this period, or sooner if notified by the agency or agencies that any issues have been resolved, ICANN will resume processing the application; or
- At the end of that 45-day period, ICANN will continue to process the application, and the registrar or registry will bear the risk of any subsequent enforcement action.

C. What Stakeholders or Others Were Consulted?

- Economists
 - CRA International
 - Salop & Wright
- Legal Counsel/Staff
- The GNSO, including the Vertical Integration PDP Working Group
- The Governmental Advisory Committee
- All other Stakeholders and Community members through public comment forum and other methods of participation.

D. What Concerns or Issues Were Raised by the Community?

- ICANN should quickly resolve the issue of cross-ownership, even though no consensus is likely to be reached by the community/the GNSO.
- There was no consensus in support of any of the six proposals submitted by the GNSO in its initial report.
- There is general support for certain exceptions to restrictions on cross-ownership (certain new gTLDs, single registrant single use TLDs), which may be considered on a case-by-case basis.
- There is general recognition of the need for enhanced compliance efforts.
- There is general concern about involvement of national competition authorities that may not understand or have experience with the domain name marketplace.

E. What Significant Materials did the Board Review?

- Reports from Economists

- 23 October 2008 Report from CRA International:
<http://www.icann.org/en/topics/new-gtlds/crai-report-24oct08-en.pdf>.
- 22 June 2009 ICANN Board workshop entitled “Vertical Integration Between Registries and Registrars – The Economic Pros and Cons,” which included presentations by economists Salop & Wright and outside legal counsel:
<http://syd.icann.org/files/meetings/sydney2009/presentation-vertical-separation-22jun09-en.pdf>.
- 28 January 2010 Report from Salop & Wright:
<http://www.icann.org/en/topics/new-gtlds/registry-registrar-separation-vertical-integration-options-salop-wright-28jan10-en.pdf>.
- 12 September 2010 Report from Salop & Wright, evaluating the six major proposals submitted by the GNSO:
<http://www.icann.org/en/minutes/board-briefing-materials-2-25sep10-en.pdf> (pages 34-50).
- 18 August 2010 Revised Initial Report from the GNSO:
https://st.icann.org/data/workspaces/vert-integration-pdp/attachments/vertical_integration_pdp:20100818172144-0-27930/original/Revised%20Initial%20Report%20Vertical%20Integration%20PDP%20WG%2018%20Aug%202010%20Final.pdf.
- Comments from the Community
 - The Public Forum: <http://icann.org/en/public-comment/#vi-pdp-initial-report>.
 - Summary of Comments:
https://st.icann.org/data/workspaces/vert-integration-pdp/attachments/vertical_integration_pdp:20100818171812-0-28944/original/Summary%20of%20public%20comments%20for%20Initial%20Report%20on%20VI_rev%204.pdf.

- Comments from the At Large Advisory Committee (the “ALAC”): <http://www.atlarge.icann.org/announcements/announcement-10sep10-en.htm>.
- Comments from the Governmental Advisory Committee (the “GAC”): <http://www.gac.icann.org/press-release/gac-comments-new-gtlds-and-dagv3>.
- Board Briefing Materials
 - 25 September 2010: <http://icann.org/en/minutes/board-briefing-materials-1-25sep10-en.pdf>.
 - 28 October 2010: <http://www.icann.org/en/minutes/board-briefing-materials-1-28oct10-en.pdf> (pages 137-142); <http://www.icann.org/en/minutes/board-briefing-materials-2-28oct10-en.pdf> (pages 69-100).
- Board Meeting Minutes & Transcripts: <http://www.icann.org/en/minutes/>.

F. What Factors the Board Found to Be Significant

The Board considered numerous factors in its analysis of cross-ownership. The Board found the following factors to be significant:

- the risk of data abuse, including front running, privacy violations, and domain tasting, and the availability of contractual and legal tools to manage that risk (recognizing that data abuses occur regardless of whether cross-ownership is permitted);
- the risk of increasing exposure to litigation;
- the risk of abuse of market power, and the availability of contractual, regulatory and legal tools to manage that risk (recognizing that abuses of market power occur regardless of whether cross-ownership is permitted);
- the principle that the Board should base its decision on solid factual investigation and expert analysis;

- the lack of reported problems with ICANN's historical practice of permitting registrars to own registries;
- the recognized benefits of vertical integration in other industries; and
- the goal of promoting equal access to registries for registrars.

G. The Board's Reasons for Permitting Cross-Ownership Under Certain Circumstances

Some in the community have suggested that the Board's 5 November 2010 resolution relating to registry/registrar cross-ownership was a complete reversal from the Board's position set out in Nairobi on this topic. However, the default position set forth in Nairobi was not meant to be the Board's final position on cross-ownership. As noted above, the Board's Nairobi resolution was to be a placeholder only. The Board's hope was that setting out an extreme position of strict cross-ownership would help the community arrive at a consensus position on registry/registrar cross-ownership that would be beneficial for all involved.

In the fourth version of the Applicant Guidebook, the Board made clear that the Nairobi resolution was not the final word. Specifically, the Draft Applicant Guidebook included a note that the Board encouraged the GNSO to recommend a policy on this issue, and that the Board would review the cross-ownership issue again if the GNSO did not make recommendations in time for launch of the new gTLD program. *See* <http://www.icann.org/en/topics/new-gtlds/draft-agreement-specs-clean-28may10-en.pdf> at page 5 (emphasis added).

By the September 2010 Board retreat, the GNSO had failed to develop a consensus policy on the issue of cross-ownership. There, the Board asked the GNSO to state whether consensus was possible (<http://icann.org/en/minutes/resolutions-25sep10-en.htm#2.11>). On 8 October 2010, the GNSO informed the Board that it was unable to reach a consensus (<http://gns0.icann.org/mailling-lists/archives/council/msg09754.html>.) Accordingly, the Board had to make a final determination on cross-ownership, at least for the first round of the new gTLD Program, and took the matter up during its retreat in November 2010.

In Trondheim, the Board noted that it "had over six months since Nairobi to consider the issue [of cross-ownership], including consideration of the GNSO VI working group's deliberations, and community comment including at the ICANN meeting in Brussels in June 2010." (*See* <http://icann.org/en/minutes/resolutions-05nov10-en.htm>.) The Board went on to state that it had "carefully considered available economic analysis, legal advice and advice from the community" in making its determination.

During deliberations on the cross-ownership issues, the Board considered multiple reasons for voting in favor of the November resolution. As noted above, the Board considered all the information contained in each of the community proposals, as well as independent economic analysis, public consultations, public comment forums and Board briefings that were provided during the Board's decision making process. In light of the voluminous material and numerous discussions, the Board made its decision reflected in the 5 November 2010 resolution for the following reasons.

- None of the proposals submitted by the GNSO reflect a consensus opinion; as a result, the Board supported a model based on its own factual investigation, expert analysis, and concerns expressed by stakeholders and the community.
- ICANN's position and mission must be focused on creating more competition as opposed to having rules that restrict competition and innovation.
- Rules permitting cross-ownership foster greater diversity in business models and enhance opportunities offered by new TLDs.
- Rules prohibiting cross-ownership require more enforcement and can easily be circumvented.
- Rules permitting cross-ownership enhance efficiencies and almost certainly will result in benefits to consumers in the form of lower prices and enhanced services.
- Preventing cross-ownership would create more exposure to ICANN of lawsuits, including antitrust lawsuits, which are costly to defend even if ICANN believes (as it does) that it has no proper exposure in such litigation.
- The new Code of Conduct, which is to be part of the base agreement for all new gTLDs, includes adequate protections designed to address behavior the Board wants to discourage, including abuses of data and market power. Data protection is best accomplished by data protection tools, including audits, contractual penalties such as contract termination, punitive damages, and costs of enforcement, as well as strong enforcement of rules. By contrast, market construction rules can be circumvented and cause other harms.

- Case-by-case re-negotiation of existing contracts to reflect the new cross-ownership rules will permit ICANN to address the risk of abuse of market power contractually.
- In the event ICANN has competition concerns, ICANN will have the ability to refer those concerns to relevant antitrust authorities.
- ICANN can amend contracts to address harms that may arise as a direct or indirect result of the new cross-ownership rules.

IV. Impact Statement

A. Are there Positive or Negative Community Impacts?

The Board thinks that its decision to allow cross-ownership of registries and registrars in the new gTLD Program will have a positive Community impact, as it will, at a minimum, help foster competition and innovation.

B. Financial impact.

The Board does not think that its decision will have a financial impact on ICANN's Strategic Plan, Operating Plan or Budget, except to the extent that compliance efforts to enforce the new Registry Code of Conduct may impact the Contractual Compliance budget. Additional Contractual Compliance staff and resources may be required, but the precise amount is unknown at this time. The Board may be in a better position to analyze that financial impact on ICANN once the number of new gTLD Registry Operators are known.

The Board thinks that there will be a positive financial impact on the community and the public. Registries and Registrars will be able to reduce costs and, the savings of which hopefully will be passed on to the consumers. Moreover, competition tends to reduce prices to the consumer.

C. Security, Stability and Resiliency.

The Board sees no security, stability and resiliency issues relating to the DNS arising from its decision on cross-ownership.

STATEMENT OF OPPOSITION

One Board member, George Sadowsy, voted in opposition to the Board's Resolution on Cross-Ownership passed on 5 November 2010

(<http://www.icann.org/en/minutes/resolutions-05nov10-en.htm>) and submitted his statement of opposition set forth below. Another Board member voted in opposition to the Board's Resolution on Cross-Ownership and indicated his opposition was on similar grounds to George's. George Sadowsky's statement reads:

I oppose this motion on several grounds. First, the resolution makes a very significant change in relationships between registrars, registries, and registry service providers. It will drastically change both the current dynamics of the domain industry and the way in which it will evolve. This change will be introduced concurrently with a major expansion of the gTLD space, and we cannot predict with any certainty the effects of either change, much less the combination.

Second, the significant extent of this change makes it irreversible for all practical purposes. If unintended consequences appear that make it advisable to re-introduce some separation between parties, it will be impossible to do so without major disruption of the players in this industry.

Third, in spite of the measures to be taken to ensure "good conduct," the resolution has the potential to commingle all of the data, public and private, regarding a registry in one place, providing the possibility of easy and invisible sharing of data within a merged or co-owned entity regardless of the scope of any agreement with ICANN.

Such sharing is likely to be undetectable given the close affiliations among the entities. Data now forbidden to be shared between registries and registrars will be shared. Both auditing and enforcement by ICANN are unlikely to be effective, all the more so as we move from 20+ to hundreds of new gTLDs.

Finally, a combined registry-registrar having the possibility of data sharing will have more market power than otherwise. Assuming that each gTLD registry must continue to treat all registrars equally, the real benefits of vertical integration are largely illusory, but those that can be easily obtained by the officially forbidden sharing of data are real.

The removal of restrictions to vertical integration embodied in this resolution is unnecessary, and goes counter to both the interests of registrants and the global public interest.