

PIR Community Forum

29 November 2019

Corrected for coherence.

James Wood

We have Gonzalo Camarillo, Chair of the Internet Society Board of Trustees, and Andrew Sullivan, Internet Society President and CEO. I would like to turn first to Andrew to lead us off, and then after that, he'll turn to Gonzalo, and then we can take your questions. Andrew?

Andrew Sullivan

Thank you, James. Hi, everyone. Thanks for coming. I know this is on short notice, and I appreciate your participation. We understand there have been concerns about this transaction. This is a discussion about the proposed deal, and we want to make sure we can answer the questions to the extent that we possibly can. Many people have been frustrated about the amount of information we have been able to share. I understand that. I understand it a lot. I have only just now received permission to disclose a new piece of information, that we have not been able to disclose before, and that is the amount of money that the Internet Society is receiving under this. I am sorry I wasn't able to send it around, but this is new information that we will post later today. The total purchase price in this case is 1.135 billion dollars. So this is a large amount of money that came to us unexpectedly. We were not looking for this. The buyer came to us and proposed a very large transaction. We concluded that that would provide us with a fund that we could then invest as an endowment. When we invest it as an endowment, what you do is you put the money in a fund, it is invested, and then you live off the earnings that come from that investment. This amount of money is sufficient to provide for earnings that deliver us the income that we get every year from PIR right now. Right now we get about 45 million dollars a year from PIR. There have been a couple of years where there have been extended amounts of money., but normally that's the regular income. We believe that, responsibly invested and managed, this fund can deliver that in perpetuity. The way you do this is you invest it, and you have a management team. We are going to build a new governance structure for this, the foundation that delivers the money. It will be a supporting organization of the Internet Society, just as PIR is today. It will have a separate governance structure. We are going to propose some governance structures after consulting with experts in non-profit endowment management. We will propose some ways forward, and consult with the community in order to talk about about how this is going to be operated. We intend to do that entirely openly, and to operate this in accordance with the transparency with which we normally like to operate everything. I think this is entirely good for the long term future of the Internet Society, and for all of the work we are able to do all over the world. This allows us to be sure that we will be able to operate this organization to deliver the efforts we have around connecting the unconnected, to continue to defend the Internet and all of the technology that gives us so many benefits, as opposed to other centralizing technologies. It will allow us to do that in perpetuity, and not be exposed to a single industry, and a single company within that industry. That has been one of the central issues that we have been worried about. The domain name industry appears to be robust today. It appears to be in good shape, but it also is only one industry. If you are invested in only one industry, then if that industry changes your income

changes as well. We have been concerned about that for a long time. When this opportunity came along, we believed -- because it involved investing in PIR, because it involved making sure that the non-profit sector is well served, and because it delivered us essentially a perpetual endowment for the Internet Society -- we thought that it was good for everyone. We believed that it was good for the Internet, and that is why we have done it

Andrew Sullivan

With that I'm going to turn it to Gonzalo, so that he can give you something of his thinking about this before we open the floor to questions.

Gonzalo Camarillo

Thank you Andrew. Welcome everyone. Thanks everyone for joining. Today, as Andrew said, we got the green light, merely a few minutes ago, to disclose the amount. Following what we do usually, and to be as transparent as possible, we have disclosed it. Some people in the chat were saying that they didn't hear the figure well, so I wrote it there, so I hope that's clear. Just as a summary of what Andrew was saying, when we got this offer, and as we disclosed before, we were studying several offers. This is an amount of money that we couldn't just say no without considering. So we studied the situation and, as Andrew said, in terms of benefits, it resolves many questions that we were looking at. Many boards before us were trying to make sure that we have funding in the future for our Action Plans, to fund the IETF, for the ISOC Foundation, all the mission based activities that we do. I appreciate a lot of the questions that we have got on their mailing list because many of those questions, or most of those questions, were considered by the board when we analyzed the situation. It wasn't just a monetary based decision. We also looked into reputation, into continuing operations, into the dot org owners, etc. As I said in the Q&A session we had in the board meeting, all these things are trade offs. You have to look at the whole picture and decide what to do. Overall, we believe that this is actually quite positive for ISOC. As Andrew said, it gives us a very strong financial footing to fulfill our mission. It's about the legs that Andrew explained before, and I'm not going to repeat that. This is a quick summary. I don't want to extend this anymore because I think it's good that we open the floor for questions. So I will give the floor to James so that we can start answering your questions.

James Wood

Okay, Andrew, Gonzalo. thank you very much. Yes. We have a number of questions in chat already. I've noted a number of these down. And we'll start with the ones that were asked initially. Dave Burstein asks a few questions: Will ISOC be a multi stakeholder organization? His second question is: How will I sort of come together after this? And thirdly: How can ISOC repair the damage to its reputation?

Gonzalo Camarillo

I can take that because I already addressed that in the board meeting in the Q&A session we had. As I mentioned then, the governance of ISOC is something that we have been looking into. Before my time in the board, six or seven years ago, it was actually changed. As I explained, before the organizational members had six votes, for example, and now we have 4-4-4. We have four trustees chosen by the IETF, four trustees by the organizational members, and four trustees by the chapter community. That's the governance written in the bylaws and agreed by the community. If we want to revisit that, that would certainly be possible, but I think that's completely independent from this deal. I think it would be better

to separate both discussions because this could take another session to talk about that. As I said, we can have a separate discussion, or start looking into that. I have myself have had discussions with chairs of the advisory committees, both the OMAC and the Chapter Advisory Committee, on how we form the NomCom and all these questions that relate to governance. As I said, I don't think this is directly related to this deal, so I would like to park it for another time.

James Wood

Okay, thank you. Next question comes from Osman in Turkey. How will the oversight to be maintained? I think Osman means the endowment.

Gonzalo Camarillo

As we mentioned, this is a very large number. It's a lot of money. We are very concerned. That's our first priority now, setting up a structure for the governance of that money. In short, our initial plan is to build an endowment, We wouldn't touch the principal,. We would be financing ISOC and its operations, including IETF funding, and the ISOC Foundation, out of the earnings. We haven't made any decision. What we need now is to get options and proposals from our financial advisors. Once we have that, we will run a process within the community to decide how to govern that amount of money. The reason we can't more explicit is that we haven't made any decisions. The initial plan is to set up an endowment. With an endowment you are restricted. You can't just take the money and spend it. You can only touch the earnings. You need an investment policy, which we are familiar with, because we already invest our reserves in a similar way. This would be an order of magnitude higher. We want to set up a different organization, like we have now for PIR. This would be a different organization, not ISOC. It will be a supporting organization of ISOC, and it will operate at arm's length. Similar to what PIR has been doing but, instead of running dot org, they would be investing in the endowment. This is our initial idea, and then there are some rules as to how you run an endowment. Andrew has been talking about that on the list. You have rules for when you are making more money, to cover inflation, or when you are losing money, you can compensate somehow, but those rules we need to consult on them with the community. I cannot really give you any end at this point. Be ready to look into directions we will be sending as soon as we're ready.

James Wood

Okay, question from Karima: Is the equity firm Ethos planning on monetizing the data?

Andrew Sullivan

I can answer that. There are very strict rules, imposed by ICANN, about what registries may do with the data that they have. And those rules get stricter all the time. That's not actually a thing that is open to the new owners, they can't do that. There are some things that, I presume, they would like to use the data for . I think that they have some proposals for various kinds of services, optional services and so on, that they have some ideas about, that they would be building for this. I can't speak to their business plans, that really would have to be a question for Ethos. What I can say is they had a number of ideas, they were not proposals so much as suggestions, about things that they might like to do. One of the considerations that we had when we were looking at this proposal, was that they really wanted to invest in this. As I've said on various lists, one of the things that we had been concerned about was that we were dependent on this income. It meant that we had to be very conservative about the ways that we

could invest in PIR. A company that is trying to build a business on top of that is going to have different incentives. Those different incentives mean that they're going to invest in the company somewhat more because they can they can afford to take the risks.

James Wood

Thank you. A question from Vinayak: How is ISOC planning to fund itself after five or 10 years? As far as i know dot org was the only prime source of income for ISOC

Gonzalo Camarillo

This seems to be a question I answered before. The idea is to put this money in an endowment. We will be using the earnings to fund ISOC, ISOC Foundation, the IETF etc. If you check the usual return on investments or endowments that are not invested too aggressively, it should be enough to give us a revenue stream comparable to what we were getting before from PIR. That's the plan. I saw another question on the governance of this entity, asking if the fact that you cannot touch the principal, the basic rules in an endowment, if that's just a promise that the board makes? Assuming that you don't need to trust the current board or the future board, would we would burn it into the bylaws, which is another level of protection, or would we do something else? As I said, we haven't made any decisions. My personal take, and I would say the board is behind me, is we put clear restrictions on that. At minimum, it should be burnt in the bylaws that we cannot actually touch the principal. We are looking also into ways that would allow us to legally restrict that. When we get the money, technically it's not yet an endowment. We will try to actually burn something legally so that a board cannot just change the bylaws and touch that principal. Our financial advisors are actually working on that. We requested that. That's a very good question, obviously. This is one of the options that we will be presenting to the community as soon as we can.

Gonzalo Camarillo

Thank you. A slightly new question, I think, from Andres: What other considerations, other than monetary, were evaluated in the cost benefit analysis of the deal?

Andrew Sullivan

I can answer that. One of the things that we had to look at in thinking about this is the health of the PIR itself. PIR has been used for many years, and very generously, as a source of income for the Internet Society. That's why it was set up that way. It doesn't align the interests of growing that business with the interests of the Internet Society. One of the considerations was, we had somebody who really wanted to invest in the company, You can imagine that somebody might have instead been just one of the other registry operators, and they were just coming along to buy the TLD to turn it down and so on. That's not the case here. It's really an investment in the company, and the goals of that company. Another consideration was their plan to operate PIR according to the principles that it's operated so far, so we believe that they were making an investment in the community in that way. Another consideration was that this appeared to be a long standing investment. That is the understanding that we have of the way that the investment is being sold to its investors., that it's a long term investment over many years. We believe that the incentives are very, very low, to try to flip this or sell it on or something like that. That was actually a very big consideration for us. We wanted to make sure that the buyer didn't have a plan for that. I will say that this is a very high multiple, on earnings, what's called

EBITDA. Those kinds of very high multiples very frequently don't incentivize further sales further down the road, because you've already put a lot of money into it. The chances are, you're not going to find those kinds of things. Those are all considerations that we thought about. We certainly thought about the diversity of the money. It's not just money, it's the stability. The long standing stability and diversity of our own funding is another consideration . And we were considering that this was all operating within the context of the ICANN multistakeholder process. The governance of dot org is governed in part by ICANN's agreements. Those agreements we believe are strong. The community can make them stronger. That was another consideration that we had.

Gonzalo Camarillo

Did we mention the stewardship committee?

Andrew Sullivan

I did not mention that, but yes, there is an effort. Ethos is planning, and this has been announced, that they plan a committee from the community as part of the stewardship of the organization.

Gonzalo Camarillo

That's important. That was our main concern as well. The offer showed pretty clearly that they are willing to invest in PiR, continue developing, etc, potentially putting even more money than ISOC could. So, for the development of the PIR business, this would be positive. Of course a concern was about the governance of the new PIR. When we were discussing with Ethos, they presented a very complete proposal, including a stewardship committee, an advisory committee made up from people from the community. They were talking people like Vint Cerf, Steve Crocker, people like that, that you all know. So we were quite confident that the governance made a lot of sense. It wasn't that the governance was a closed black box that we would be giving away. Ethos actually had good ideas on how to involve the community. As Andrew said before, that's something to be elaborated on, and Ethos is the right party to comment on that, but that was one of the considerations we took into account.

James Wood

Okay. So I have a question that I think links to a number of questions that have been asked and has been covered to some extent already. It relates to Dave Bernstein's third question about ISOC's reputation, where Brandt and also Richard Hill are asking, : What is your assessment of the reputational damage to the Internet Society? And what steps have plans to address the negative publicity arising from the deal?

Andrew Sullivan

So I can answer that, at least in part. Some of this is stuff that we're going to have to do henceforth. I will grant that some of the transparency in this has been less than I would like in the ideal world. That is one of the things that has been a problem for us. There is some difficulty that we have to do there. All I can say is, we're going to continue operating along the lines that we have undertaken over the past year. I think it is fair to say, for instance, that our action plan this year was developed with far more transparency than in previous years. I think you will continue to see efforts in that direction. We have been trying to develop, along with the community, a picture of what we're trying to do over five years, so that you have a better picture of what we're going to do in the longer term. We started that long

before we were approached over this transaction. This transaction actually makes that much easier, because of the way you deal with an endowment, you have a stable number that you can rely upon year on year in a rolling average over some period of time. It becomes much easier to forecast and understand precisely the kind of money that you will have available for those efforts. That's another thing that we're going to try to do in public. You will be able to see that because the operations of the of the endowment can be more public than the operations of a business that was trying to operate in a competitive market. These are all things that that we're going to try to do. There has been some disagreement with some of our colleagues in the nonprofit and NGO sectors. We will obviously have to work on our relationships with some of those people. I do believe, however, that many of our relationships are stronger than any one event. I believe that we can work to rebuild many of the strong relationships we've had, for many, many years. Those relationships were based on much more than the operation of PIR. If you look at our action plans over the past several years, PIR doesn't even get mentioned. It was not a core part of what we were working on. The things that we were working on, connecting the unconnected, building up the infrastructure in various parts of the world that otherwise don't get that kind of investment, working on building the internet and making it more resilient against attacks on it. All of those things were things we were doing. That was how we developed all of these relationships with so many people. I believe that those activities will continue to benefit us, and to allow us to rebuild many of the relationships that have been damaged in this transaction.

James Wood

Thank you. I think this also addresses a question from Evan about negative media that we've seen, and the damage to our reputation. I will roll a couple of questions together, we had one from Karima, and another one from Anton, which are related; Will ethical investment be mandatory, and what does he first plan to do with PIR?

Gonzalo Camarillo

I can answer about ethical investments. We have different buckets, but we can consider all of them ISOC reserves for this discussion. We have ethical investment as one of the parameters. When we ask our financial advisors how we invest the money, we have ethical considerations in place. We don't invest in certain types of assets. So, the answer is yes, we will obviously continue having those constraints in the way we invest the endowment.

Andrew Sullivan

In terms of what Ethos plans to do with this, they've announced a number of plans. Most important of which is, they intend to continue to run PIR in the way that they historically have. But really, if you wanted to know more about their plans, you would have to ask them.

James Wood

Okay, a direct question: What would it take to reverse the decision? From Neil.

Andrew Sullivan

In order to reverse this decision, we would need a determination by one of the authorities who have the ability to stop it, that they wanted to stop it.

James Wood

A question from Olivier: Was the concept of putting the company up for auction studied instead of an outright sale?

Gonzalo Camarillo

That was actually one of the first considerations we had. As I said, this is not anything that we had planned like, let's put this up for sale. We got these offers. The first offers we received were not worth considering. And then we got this offer. We had several offers and we had to decide. At that point we thought: What about doing a public auction, as has been suggested, or going to consult openly with the community on everything. The problem with all that is that it would have damaged, first, the value of dot org, of PIR, if you're thinking of the transaction. More importantly, it would have put all PIR staff in a very strange situation. We were considering very seriously whether to do that or not,. We also asked our financial advisors, and then we decided against that. Another consideration, more than a little, we thought the price we were getting was, as Andrew said, quite beneficial for us. The multipliers were quite high. The final decision was was not to do that, but yes, we thought about that.

Andrew Sullivan

I want to follow up a tiny bit more on that. We did not, in fact, plan to sell this. If we had, we would have followed this in a very different direction. But there's been quite a lot of question about how, once we were approached, why didn't we talk about the idea of the sale in general? There were two reasons that we did not open that with the community. The first one was, once we were approached, we were approached on the understanding that this was an offer, and that they were not willing to participate in a public auction. So, had they been participating in a public auction -- and this was not under a nondisclosure agreement, so I can tell you this -- we believed that they would walk away. This was a very surprising offer, a much bigger thing. People had come to us before, and every time we had concluded, quite clearly, that it was not in our interest, and it was not in PIR's interest. It was not in org's interest. It just wasn't in anybody's interest. So we weren't going to do it. We were not planning to do it because we didn't actually think that it was very likely that we would achieve the kind of financial results here that would be advantageous to us, as compared to just operating the business. The earnings were very, very important. But diversification was also very important. The fact that this protected the level of earnings, while getting us the diversification, was a really, really big thing in its favor. But, if we had decided against this, it wouldn't have done any damage to PIR. Whereas, if we'd gone to the community and started talking about: Well, we don't know. We're thinking about doing this. What do you all think? PIR's business plans for this year would have been completely derailed. That would have made PIR less valuable. It would have affected their sales. It would have affected morale very badly with the staff, because they wouldn't know exactly what kind of thing we were contemplating, and so on. In this case, we had a very promising proposal on the table in front of us. It was not planned. It was not something that came to us with any kind of expectation, but it was also not something that we felt would be healthy for us to discuss with the community under those circumstances. I know that there are people who disagree with me about this, but I really thought that it was something that we had to

respond to. And, just to follow up on the on the question here: Was it within the realm of the possible? Sure, winning the lottery was also within the realm of possible, but it was not something that we were contemplating in any reasonable way. It was not a live option. It was a logically possible option, but not a live option. I don't plan on winning the lottery either. But if I found a winning lottery ticket on the ground, you can bet I'd cash it. I think that's the situation here. What happened is, we found ourselves with this surprise, and we reacted. Which is what you pay us for, or pay me for. What you select the board for.

James Wood

Question from Lee: The concerns of the present nonprofit subscribers to dot org with regard to future pricing objecting to this purpose deal will be addressed how?

Andrew Sullivan

The ICANN agreement changed this year. Unrelated to this transaction, the ICANN agreement changed. That change took a historic price cap out of the agreement. The reasons for that have to do with ICANN and its community. I think that that needs to be taken up in the ICANN context. Ethos has announced that they're going to continue working in line with the traditional pricing increases that dot org has seen. It's not clear to me that a price increase is a bad idea. Registries that have prices too low attract abuse reg registrations. They attract malware. They attract domain names, speculators, and so on. So that's actually bad for dot org. So, in fact, raising prices a little bit may be a good idea. At the same time., this is a subscription business, and a subscription business relies on a large number of subscriptions. There's a point at which you don't want to raise prices too much, because it drives your customers away, and then your money goes down. We have seen this in other top level domains, where people have tried to raise prices a great deal and they found that their customer base has dried up, has disappeared, and people go away. Remember that the registry has a sales channel through registrars, and the registrars are very, very sensitive to those out of pocket expenses. It's money that's out of their pocket. They have to float that money in the registry while this is happening. That's just the way the business works. That means that very expensive TLDs tend not to be promoted by the registrars. You tend to find that the there's a sweet spot in the industry.

James Wood

I'll get to a question that Brandt has put in the chat a couple of times.: Andrew has said in emails that the deal must be approved within a specific time period or will collapse. Can you please confirm? If so, what is the critical time period? And also a further follow up question on the your assessment of the reputational damage to the Society and the impact on the internet side his mission in the broader sense of public perception of the Internet Society.

Andrew Sullivan

So these are two different things, but what I will say about the first one is: we can't tell you exactly how long, but there is a date. It's a date that isn't very far in the future. We expect this to close in the first quarter of next year. I think you can infer from that, but I will not confirm it, that it would be a very bad thing if that didn't happen. On the assessment of the reputational damage, I think that some of the claims about the reputational damage have been a little different than the evaluation that I would make. In particular, there has been the observation that 10,000 signatures have shown up on that forum. On

the other hand, it's worth noting that there are 10 million registrations in in dot org, and there's a few billion people online. So 10,000, in that sense, doesn't seem like a very large number. The other thing is that some of the attention here is attention from people who didn't know there was an Internet Society at all. I don't know if you can call that reputational damage in that case, because you know, we didn't have a reputation of any kind with a number of these people. This is, perhaps perversely, an opportunity for us to point out all of the good work that we do around the world, in terms of connecting the unconnected, in terms of defending the internet from various attacks on it. and in terms of promoting the internet model of how networking works, as opposed to things like other models that are much more centralized. I think that there is reputational damage. I'm not trying to say there isn't any, but I think that it's not entirely fair. Some of the problem, in terms of the damage, has been because of our inability to talk about some of these details. Now that some of those details are coming out, I believe that many of these organizations will understand the reasons why we made the decisions the way we did.

James Wood

Question from Richard: PIR's operating income in 2018 was 46 million. So the current ROI of the 1.135 billion is 4%. What assurances do we have that Ethos will not seek a much higher ROI, such as 10% and therefore raise prices or slash costs?

Andrew Sullivan

The short answer is we think that the market mechanism is what keeps costs low in the registry business. There are lots and lots of for profit registries out there. Their prices are very, very competitive with the wholesale price of dot org. They could have their prices be dramatically higher and they don't. There are good reasons to suppose that there the market mechanism is working very well. This is a very competitive market, and different than the one in which PIR took over dot org. Remember, when dot org was moved to PIR, back in the in the early 2000s, it was a very small market. ICANN has changed that market dramatically. I think it is only reasonable to expect that changes in that market are going to result in changes in the way that the top level domains are managed.

James Wood

I think that also addresses, at least in part, a question from Desalagn from Ethiopia who's asking about the possibility of price rises. Question from Taylor: In the 2020 Action Plan, the regular revenue line from PIR is listed as 35 million. Was this just an estimate developed before the sale?

Gonzalo Camarillo

We had a timeline where in our meeting in Q4, which was last week, we approved a budget, and there was an estimate. But this would change everything. So you shouldn't worry about that.

James Wood

I feel as though we may have answered this as well. Just to double check. Again, from Brandt, did ISOC impose any conditions on Ethos regarding the future of behavior as a condition of the sale?

Andrew Sullivan

I can't talk about all of the specific conditions of the sale. If what you're asking is, do we have any mechanism in the agreement about price caps, or anything like that? We do not, because we believe that the market mechanism is effective here, and because we would not be effective at imposing that,. After the sale, we will not have the ability to enforce this, except by going to court. It would cost a great deal of money to enforce something that should be enforced by the community through the ICANN processes, and through the market.

James Wood

What market research or polling of all registrants was done to indicate the PIR needs to expand its services. I think some of that you've covered.

Andrew Sullivan

We haven't actually done that market research, which is the point that I've been trying to make. We haven't done that because we have regarded PIR as an income source for the Internet Society, which is exactly how it was set up, and how it was conceived back in 2002, when it got set up. A company that wanted to grow the business would, instead, try to do that kind of work. I don't know whether there is market research that's been undertaken by Ethos as part of their planning for this for this deal, and you would have to ask them

James Wood

Another question from Jordi: It's clear that the community is disappointed by the sale. The board should reconsider the decision. Can we put the deal into a halt and reconsider it? This is not a matter of business. ISOC community is much more than business.

Andrew Sullivan

As I said, if the relevant authorities decided to reject this, then the board would obviously have to reconsider its decision. The business of PIR is, in fact, a business. It's in a market, It's currently a not for profit business, I don't know what else to call it. That's fundamentally the way we've had to operate. I agree that there is much more than business at stake here. For ISOC, for instance, essentially everything we do is not a business proposition. It's a proposition about making sure that the community can advance in the way that it wants. Our investments in community networks, for instance, do not always involve business considerations. Yet they do involve business considerations in a lot of cases, because you need in fact to have a sustainability model for a lot of these kinds of operations. That's part of what it is that we're trying to foster. There are a lot of considerations in place. In the narrow case of a registry company, which is what we have here, there are a lot of business considerations. It's not the case that the not for profit sector can't be served by corporations. We see, for instance, that the not for profit sector frequently has granting software that it uses. And many of those granting software things are proprietary systems that people buy. This is a market. the not for profit sector, that consumes products and services just like everybody else.

James Wood

In relation to this, there was a clarifying question in the chat: Who are the relevant authorities who could reject the sale?

Andrew Sullivan

There are two. ICANN could reject the sale, or could impose conditions on it, and a court in Pennsylvania, which is called the Orphans Court, It's a long story why it's the Orphans Court as opposed to anything else, but a court in Pennsylvania also has to approve this because of changes that have to happen to PIR. PIR is incorporated in Pennsylvania, and that's the reason it's in Pennsylvania.

James Wood

Question from Dave: ISOC would collect about 80 million from PR in four years. Following the price increases discussed by Ethos, it would be over 100 million a few years after that. That is much more than the return likely on the endowment. Is my arithmetic wrong?

Andrew Sullivan

I think it is, because it assumes that a linear increase in prices. What Ethos has committed to is historic practices of dot org, which were constrained to 10% a year, but were not in fact 10% a year every year. That is partly because decisions were made by management that it was not a good time to raise prices. Also, it's not clear that that all of those increased revenues automatically come to the Internet Society. There's overhead involved in increasing prices, and so on.

Gonzalo Camarillo

I've been having this conversation with many people. You can do an Excel sheet, and change numbers, and coefficients, and risk free rates, and all that, and you will get different data. You could claim that with a good economic situation, the endowment is going to give us much more than PIR, or you could claim that the PIR's business is going to be booming, and they would give us more. That's why I talked about comparable at the beginning. The key reason here is not really extracting more money or less. What we are doing is diversifying over industries. With PIR, no matter how well the industry works, and how much money they generate, we are basically exposed to a single entity in a single industry. With an endowment, you can go across industry. If you want to think in terms of hedging, you know, that's a valid view. Think of that in terms of resilience as opposed to maximizing profits. This is what the board was discussing. Just as a clarification.

James Wood

Question I don't think we've answered yet. From Evan: What safeguards, not promises, are in place to ensure that Ethos does not flip PR to someone else? Who makes Ethos an offset that they can't refuse?

Gonzalo Camarillo

Like this sale, you'd need the approval of certain bodies, as we just discussed a minute ago. That would be the same process for them. The fact that we got a pretty high multiplier, that we got several bids, and this was the most attractive, makes it quite unlikely there will be an offer in the short time frame that will be attractive, after paying this money. Those two aspects make it unlikely that that would happen.

James Wood

Question from Mike: In hindsight, should ISOC have created a stewardship committee for dot org in the past?

Andrew Sullivan

Dot org had an internal community committee. I think what this question is: Should we have had a separate committee having to do with the oversight of PIR? If I understand it correctly. I think that's what the board is for. We have a Board of Trustees that is selected by the community. It's elected by the members, the organizational members, the individual members through the chapters, and it's selected by the IAB on behalf of the IETF. That's why we have this mechanism. Not every mechanism is direct oversight by the community. There are things where we delegate that authority to the board, and the board makes that decision, and that's the way our governance model works. If what you're suggesting is that the governance model needs to change, I can understand what that proposal is. In that case, we need to have a conversation about the governance structure rather than about a particular transaction.

James Wood

Question from Richard to Gonzalo specifically: Did certain people who are not on the board receive nonpublic information?

Gonzalo Camarillo

No. ISOC didn't disclose the information to anyone beyond the board and Andrew, and our CFO as well. I cannot talk for Ethos or any other party. We kept this confidential because of our legal commitments.

James Wood

From Vinayak: Can we expect a documented future plan on how the funds will be used?

Gonzalo Camarillo

I think we've covered it already. The plan is to set up the endowment and to propose to the community the rules by which it will be governed. So stay tuned and you will be receiving that information at some point. If the question is about the investing policy, the investment policies are developed with our financial advisors, by the board, with our CFO. We won't discuss whether you want to put money on this fund, or that EPF, or go short on this stock. That's out. General governance will absolutely be discussed with the community.

Andrew Sullivan

To follow up on that, it would be extraordinarily bad practice not to use professional financial advisors for an endowment of this size. Depending on exactly how we structure it, it's not even clear that it would be legal. Exactly how that governance structure will work is one of the things that we're going to bring to the community. All plans are going to include that we have professional financial advisors as we don't want exposure to charges of financial misdealings

James Wood

Question from Karima: Will the endowment be mandated to invest in ethical sectors only?

Gonzalo Camarillo

I answered that question, and the answer is yes. As in the current investment policy we are using for the ISOC reserves. The answer is yes, we intend to continue with that.

James Wood

We still have some questions: If Ethos was not willing to participate in a public auction, doesn't that indicate that they thought that somebody else might propose a higher price for PIR? It's from Richard

Andrew Sullivan

No, it does not. The ways that these things work involve a number of different concerns. One of the things that we had to evaluate when we were looking at at this proposal, and other proposals that came to us that we rejected out of hand, was the likelihood of it happening. Investors in a transaction like this, one of the ways that they decide whether they're going to commit to it, is how likely it is that they think they're going to succeed. In a public auction you don't have any idea whether you're going to succeed, you just know that you're going to be in an auction situation. The other thing about the public auction question has to do with the non-financial considerations that people keep raising with us,. In an auction situation it's very hard to design a system so that the non-financial considerations can't be gamed. You can write them down. People can provide answers to that and yet they're not compelling to you, when you're making the decision. If you did that in a public auction case, if you decided, for perhaps a lower price, or a different price or something like that, because you liked those other considerations better, people would ask you why you did that. We received professional advice, professional evaluation of PIR. That professional evaluation told us that the amount of money that they thought it was worth in the market was less than what we managed to get. I can't disclose the numbers, although eventually that report will come out. Right now, it's covered by NDA. We are quite convinced that what we achieved here was considerably better than what we could even logically have expected in advance. Obviously, we were wrong about that expectation, but we really didn't think that it was very likely. It didn't seem like a good idea to turn this opportunity down.

Gonzalo Camarillo

Let me just clarify. You can play with the numbers. Depending on the year, you will have a drawdown, or you will be making money. I think the key point is what Andrew said. We cannot play amateur financial advisors. We got professional help. We did the calculations and it made sense. I didn't feel comfortable saying, look 2% more or less. When you are dealing with an operation beyond \$1 billion, you need financial advice, and this is what we sought, and we got different opinions. That covered our decisions pretty well.

James Wood

Question from Nina, in Bulgaria, to Andrew: is the multi stakeholder approach compromised by this deal. You've said before the future of the Internet is going to be decided by the insurance institutions. How does this deal change that statement?

Andrew Sullivan

I don't think I've said that the future of the Internet is going to be determined by insurance institutions. What I have said is that one of the things that has changed markets in the past, and changed purchasing decisions, was insurance companies. I thought that insurance companies are likely to start to pay attention to particularly the Internet of Things, but also the internet more generally. Then that will be one of the things that we will have to take into account. I don't believe that this injures the multistakeholder model at all. I think that one of the stakeholders that we sometimes forget about, when we talk about multistakeholder models, is companies and buyers and so on. They're also stakeholders in these things, and we need to pay attention to their interests as well. What we have is a strong multistakeholder system at the Internet Society, because of the way we select the board. Even decisions like this, where we can't do wide consultation, are still taken in a multistakeholder environment because of the way the board is built.

James Wood

Constitutional question, I guess, from Evan: Clear question. It should have a clear answer. Who are ISOC stakeholders, and what accountabilities does ISOC owe to those stakeholders?

Gonzalo Camarillo

I think we answered that question several times. This is a governance question. I'm not trying to avoid this question. But it's different from [this issue]. We can discuss the governance. Last time it was reviewed was six or seven years ago. But, as we have said already, we have 12 trustees, and they are elected or selected by the IETF, the chapter community, and the org community.

James Wood

I think here's one that we've not had, from Neil: How do you respond to the specific concerns outlined in the ISOC.NL statement, the Netherlands chapter, in opposition to the sale, including the intellectual property concerns over dot org naming.

Andrew Sullivan

I think several of the concerns raised in that position have been discussed, but the intellectual property concerns, it's true, is one that we have not discussed today. The intellectual property concerns are covered by the registry agreement, and it's not going to change. Nothing about the relationship between dot org, PIR and its operation, and its relationship to ICANN, is going to change without ICANN's consent. You can't unilaterally change a contract. Those questions are really things that have to be taken up in the ICANN community. The ICANN community has a robust multistakeholder system. There's no reason to suppose that's going to disappear, in this particular case.

James Wood

We will take two more questions. Repeat question from Joly: Under the current status quo does the fact that ISOC has an owned commercial operation as its primary source of revenue in any way threatened its nonprofit status with the IRS?

Andrew Sullivan

No. This is actually a complicated but important question. Very briefly, and I'm going to vastly oversimplify in order to answer this question in the time we have. It is not a problem for a nonprofit organization to have a nonprofit supporting organization. It's unusual in the United States, quite unusual, the arrangement that we have, but it's not a problem. We have, of course, lots of legal advice to that effect. And determinations by the IRS. The IRS has decided the PIR was a 501(c)3. It's also possible for a not for profit organization to have a for profit supporting organization. So, for instance, the relationship between mozilla.com and mozilla.org. The Mozilla Foundation is like this. There is a corporate entity that is a for profit entity, and a nonprofit entity, and there's a relationship between them. So that's also not unusual. What you do have to do, though, is do this very carefully. You have to follow a lot of rules. Those rules are complicated tax matters that require expert advice. I think we've got the best expert advice we could find on this matter. We analyzed this with a great deal of care for this very reason. Obviously, if this substantially affected the results for the Internet Society, it would be a very different story. We would not want this to become a massive tax liability, or something like that. So this was something that we engaged a lot of, as Dave has pointed out on more than one occasion, quite expensive lawyer advice, but the reason you pay experts is because they're experts. And that is the decision that we made.

Gonzalo Camarillo

Okay, we'll end with one final question, and we're a little over time. From Neil: What is your greatest fear for the future of dot.org?

Gonzalo Camarillo

The fear? We see positive things, and you shouldn't be surprised that we explain the positive things, because that's obviously why we made the decision. If I had to summarize at a very high level it's that we diversify the revenue. We are putting ISOC on a very sound financial footing for the future. This allows us to fulfill the mission. It's very wide. When it comes to connecting the unconnected, we are talking about 4 billion people that could be positively affected. We have the ISOC foundation where we are giving grants back to the community. We are supporting the chapters, IETF, etc. So those are very positive things. This makes the future of ISOC more certain, in the sense that we are reducing risk. We already talked about some of your concerns with damage to our reputation damage. Parts of the community, they don't agree with this. We understand the concerns. As we said, we actually discussed most of those concerns where we were making the decision, so it's not like we were surprised by those. As I said last time, when it's kind of maximizing something, it's very easy. When you have pros and cons, and you have to make a decision which is a compromise or a tradeoff, it's much more difficult. This is what the board did. We analyzed pros and cons, including reputational issues, including all the issues that have been discussed, and the positive issues as well. All in all, we put it in the balance, and we thought it was worthwhile going ahead with this. I acknowledge that this is not a 100% perfect operation that is good in every single way. But, as I said, all in all we think it's is it was worthwhile going ahead, and that's why we on the board unanimously approved it. Let me also address one question in the chat. They are asking about chapter elected trustees. Just to clarify that, obviously, Chapter elected trustees are also trustees. When we say that a decision was made unanimously, it means that they were involved, and they voted yes in this case. As I also clarified, Glenn was recused from PIR discussions. As he can confirm, he got the information as member of the general public. We did not

involve him in the discussions, but the three other trustees elected by chapters, Olga, Walid, and Hans Peter, they were in the loop all the time.

James Wood

Andrew, Gonzalo, thank you very much. I would just like to thank everybody who's attended the call today, and for all of your questions. We have had an enormous amount of questions. We didn't manage to get to every single one, but I think we we had a good go. We will capture everything, we're recording this session, and we will circulate that for people who weren't able to attend. For now, thank you very much indeed for your time. And goodbye.