SIDN Annual report 1998

Personal Details

Foundation Board
Drs. B. Nederkoorn, Chairman
Dr. R.J.T. Lindgreen, Secretary
Ir. P.A.M. Oude Ophuis, Treasurer
P. Beertema
P.W. Morée
N.A. Vermeulen
J.R. Koolhaas

Foundation Office
Ir. R.J. Clason, Manager
Ing. R.J.M. de Klein, Hostmaster/Team Coordinator
Ing. D.J. Ligtenbelt, Secretariat/Legal Affairs
Drs. A.P.J. van Slingerland, Legal Affairs
M.J. Buurman, Operator
J. van Pijkeren, Operator
M. Scholsberg, Operator
S. Ramanathan, Operator

W.G.M. Driessen, Technical Support
H.G.J. Roelofs, Technical Support
Ing. M.W. Groeneweg, Technical Support

Drs. F.H.B. Guijken, Controller
A.L. Brunsting, Financial Administration
Mr. H.W. Wefers Bettink, Legal Advisor
W. Stikkelbroeck, Chairman of the Council of Participants

Introduction

During the year under review, the Board met five times and the Council of Participants once. Following revision of the Articles of Association on 29 April 1998, Boudewijn Nederkoorn and Ted Lindgreen were both reappointed by the Board for a period of three years. With effect from 1 September 1998, Nick Vermeulen was also reappointed to the Board for a further three years, having been nominated by the Council of Participants. On the same date, another Council of Participants nominee, Jasper Koolhaas, joined the Board for a period of three years, bringing the Board's total membership up to seven.

Thus, at the end of 1998, the composition of the Board was as follows (with the year in which each member's term of office ends indicated in brackets):

- Boudewijn Nederkoorn (2001)
- Ted Lindgreen (2001)
- Piet Beertema (1999)
- Peter Morée (1999)
- Nick Vermeulen (2001)
- Peter Oude Ophuis (2000)
- Jasper Koolhaas (2001).

Wilbert Stikkelbroeck chaired the Council of Participants throughout the year under review.

Review of the year

On 29 April 1998, following approval by the Council of Participants, the Foundation's Articles of Association were amended. The changes ended the special status previously accorded to SURFnet and NLnet in the Foundation's management structure. Having been the prime movers behind the Foundation's establishment, these two companies had originally been given permanent representation on the Board in order to ensure stability. In the intervening years, however, it had become apparent that the Foundation could function adequately without this special arrangement. Since implementation of the changes, the reconstituted Board has seven members, four nominated by the Council of Participants and three appointed directly by the Board itself.

Day-to-day operations

The number of mutations – registration processing operations – handled per month serves as a useful indicator of production at the Foundation's office. A mutation may involve the registration of a first or subsequent domain name, the amendment of name and address details, the transfer of a domain name or other such operations.

During 1998, the number of mutations for processing increased from 2,397 in January to 4,861 in December. To absorb the extra workload, the number of KEMA personnel involved in the Foundation's day-to-day operations was increased.

As in previous years, KEMA worked alongside Tunix Open Systems Consultants. In the course of the year, various technical measures were implemented to ensure system availability.

www.MagDieNaam.nl

On 9 June 1998, a congress was organised under the title "www.MagDieNaam.nl?" ("www.IsThatNameAllowed.nl?"). The idea was to find out whether the existing rules on the registration of domain names were in line with the wishes and expectations of a wide group of people with a direct interest in domain nomenclature in the Netherlands. The proceedings of the congress are described in more detail later in this report. One outcome of the congress was a move to set up an independent appeals board. By the end of the year under review, the process of selecting members for the board was underway. It was anticipated that the appeals board would be convened sometime early in 1999.

Revamped Website

During the year under review, the decision was made to have the Foundation's Website redesigned and its content revised. The first material to come out of the review process was presented to the Board for assessment before the end of the year. The new site should be on line early in 1999.

Self-regulation

In the second half of the year under review, the Foundation was affected by various important international developments. Not least of these was the publication by the US government of a Green Paper in January and a White Paper in June, dealing with Internet self-regulation. The Foundation's board decided to take an active part in the debate concerning these papers, since the issues involved were considered critical to the continuity of domain name registration and therefore to the Foundation itself. Accordingly, the creation of an umbrella organization for all the country code registries (ccTLDs) in the RIPE area (Europe and a few non-European countries) was set in motion. The project was given the title of RIPE CENTR (Council of European National Top Level Domain Registries). Boudewijn Nederkoorn, who chairs the Foundation, duly became the first chairman of CENTR and went on to play an influential role in determining the form that CENTR would take. CENTR is seeking to secure an appropriate position for the ccTLDs in the restructuring of ICANN

(Internet Corporation for Assigned Names and Numbers). The generic registries (gTLDs) are also to be given a place in the new structure. CENTR cooperates with similar regional organizations from other parts of the world through the WWTLD (World Wide Alliance of TLDs). In the course of 1999, CENTR is to become a formal association. Anyone wishing to obtain the latest information on international developments in this field can visit the Foundation's Website.

Expansion of the Foundation's office operation

The Board intends to provide the Foundation with its own office accommodation, with a view to further professionalising management and communication activities. Towards the end of the year under review, the first steps were taken towards recruiting a Chief Executive to manage the Foundation's day-to-day operations. It is hoped that a suitable individual will be in place early in 1999.

New domain registration system

A start was also made on setting up a completely new technical system designed to cope with the rising volume of mutations and to satisfy the increasing demand for quality, service and availability. Particular attention is to be given to improving the level of user-friendliness experienced by participants. By the close of the year under review, the functional specifications had been formulated and the technical design work had started. The new system should be ready for commissioning in the third quarter of 1999. The possibilities that the new system will offer are described in a later section of this report.

Council of Participants

The Council of Participants continued to play an important role in the Foundation's decision-making. Numerous participants attended the congress "www.MagDieNaam.nl", where they were able to express their views on the revision of the rules governing the registration of domain names. The participants also endorsed the proposal to further professionalise the Foundation's office operation. Another development in 1998 was the introduction of a special logo that participants can use on their Web sites, letterheads and so on.

The concluding sections of the annual report are devoted to the Foundation's accounts and the auditors' report.

Congress www.MagDieNaam.nl?

In June 1998, the Board of the Foundation for Internet Domain Registration in the Netherlands kept a promise given to participants. Since October 1996, the Foundation had been committed to reviewing the domain name registration rules on the basis of the wishes and thinking of interested parties. A congress entitled "www.MagDieNaam.nl?" ("www.IsThatNameAllowed.nl?") was accordingly organised at the Berlage Exchange in Amsterdam, as a forum for the discussion of important matters with the membership at large (see box on page 9). After listening to speeches on a number of pressing issues and proposals, congress delegates used an electronic voting system to register their views. The main points to come out of the congress are dealt with below.

To ensure that delegates were able to actively participate in the debate, an electronic voting system was used at the congress. The various issues and proposals were first introduced by speakers who described the regulatory position in the Netherlands and elsewhere and explained the practical implications. After hearing the arguments, delegates were given the opportunity to vote. In his presentation to the congress, Erik Huizer, a member of the Internet Architecture Board and Director of the SURFnet Expertise Centre, placed the emphasis on international developments. Boudewijn Nederkoorn, Chairman of the Foundation for Internet Domain Registration in the Netherlands, set out the existing procedures. Finally, Wolter Wefers Bettink, of the legal firm Houthoff, outlined the position with regard to trademark law and sketched some of the problems that could arise in practice.

A degree of liberalisation
At the congress, delegates heard speakers argue for and against further liberalisation of the nomenclature rules. Generally speaking, the congress appeared to lean slightly in favour of a degree of liberalisation. This was apparent from, for instance, the support given to Bas Kist from the Shield Mark organisation. Mr Kist put
forward ten proposals for relaxation of the regulations and was backed by 52 per cent of the voters. His opponent, Micha Kat from the Vrijmerk Foundation received 34 per cent of delegates' votes. However, 58 per cent of the voters rejected complete liberalisation. Asked whether the Foundation should be obliged to accept any application to register a name (unless it had already been registered by someone else), 61 per cent said "No". The full results of the various votes are posted on the Foundation's Website.

Who can apply to register a name?
The Board presented the main points to come out of the congress to the Council of Participants when it met on 24 September 1998. The Board concluded that no major changes were required to the rules governing who was eligible to register a domain name. Although congress delegates had initially tended to favour allowing private individuals to register domain names, opinion had swung the other way once the problems associated with such a change had been explained.

The congress had also considered the issue of permissible names. It appeared to the Board that opinion in the Netherlands was divided as to whether the restrictions should be relaxed or tightened. Partly under the influence of developments abroad, the most popular approach was apparently gradual liberalisation of the nomenclature rules. Nevertheless, the Board sensed that there was no general support for the complete removal of restrictions. According to the Board, the existing rules presented an inappropriately high access threshold. More precise definition of the grounds upon which names are rejected was felt to be in order, with a view to increasing the number of names that are acceptable.

Questions regarding domain names

The www.MagDieNaam.nl congress was attended by participants in the Foundation (51% of delegates),
lawyers and trade mark experts (21%) and representatives of (quasi-) governmental organisations, the
business community and trade associations (28%). Debate focused on the following questions:

- Who should be allowed to register names?
- What restrictions should there be on the names used?
- What is the position with regard to trademark law?
- What should be done with names that become permissible under the modified rules?
- Who should handle disputes?

First come, first served

Various possible systems for the allocation of names were discussed at the congress. The main options considered were the auctioning of names, the registration of third-level domains (as in the UK) and closer alignment with general trademark law.

The Board did not favour the auctioning of names. It would be hard to predict which names would be most saleable, and auctions would slow down the registration process enormously. Furthermore, the Board did not want applicants to have to pay any more than was strictly necessary. Another consideration was that the Internet had traditionally operated on the basis of first come, first served.

Registration of third-level domains was considered to be an outmoded option, since almost 60,000 names are already in use at the second level. It was also pointed out that the existing rules allowed umbrella organisations representing an entire industry to have a domain name that could be used as a generic second-level domain by organisations active in the relevant sector (e.g. "omroep.nl"). It was then up to the industry in question to decide how to regulate the further use of this generic name.

Trademark law

It was apparent that closer alignment of the registration rules with trademark law was not supported by a majority of congress delegates within any of the groups – not even the lawyers. The Board considered this understandable, given that domain names were used not only for economic traffic, but also for social traffic. The Board also attached great significance to the fact that a domain name, unlike a trademark, could be registered only once. Furthermore, domain names were subject to various technical restrictions, whereas trademarks were not. Nevertheless, the Board did believe that there was a global need for greater consistency between domain name and trademark registration systems, particularly in the field of dispute resolution.

On the other hand, it was rightly drawn to the Board's attention at the congress that the existing situation, whereby proof of registration with the Benelux Trademarks Office was always decisive, was not consistent with the other regulations – if for no other reason than that, prior to 1996, all trademark registration applications were accepted as a matter of course by the Trademarks Office. What is more, a trademark or a trading name (such as the name of the transport company HOTEL) may be distinctive within a particular economic sector, yet liable to lead to problems when used as a domain name, such as "hotel.nl".

So should there be an auction system after all?

What should be done with names that become permissible under the modified rules? Should they be auctioned after all? A majority of congress delegates voted that they should, although most of the lawyers present were unconvinced about such an approach. Fortunately, the Foundation still has records of all applications and can therefore determine who was first to apply for a name that was rejected under the present rules. The Board therefore favours developing a system that would give

the initial applicants first right of refusal if a name becomes permissible. If the option were not taken up, the name could then be released.

Appeals Board
Little disagreement emerged on the question of who should handle appeals regarding rejected applications. At present, if a domain name application is rejected by the Foundation's office, the applicant can appeal to the Foundation's Board. The Board then decides whether the name should be allowed. However, congress delegates indicated a wish to see a system whereby such decisions could be referred to an independent external body for a final ruling. The Board therefore undertook to investigate the possibility of setting up such a system, perhaps by creating an appeals board.

What next?
On the basis of the conclusions outlined above, various draft revisions to the Regulations for the Registration of Internet Domain Names (NL) will be drawn up in consultation with the Foundation's legal advisor. These will then be submitted to the Council of Participants for consideration early in 1999.

Interactive Web form guides applicants through every step

Any Dutch organisation wanting to register an Internet domain name has to approach the Foundation for Internet Domain Registration in the Netherlands in Arnhem. Since the start of 1996, the number of applications has risen from one thousand a month to six thousand a month. In 1997, the Foundation commissioned KEMA and IT specialists Tunix Open Systems Consultants to develop a new domain registration system (DRS) for processing the applications. "And we have been busy ever since" stresses team coordinator René de Klein of KEMA. "A lot of time was devoted to optimising our services in 1998. The modified DRS – which will be a big step forwards in terms of user-friendliness, availability and security – comes into use in October 1999."

So, why change the existing DRS? "Well, the present system does have one or two shortcomings," responds De Klein. "And naturally we want to provide the best possible service." Another factor is that end users constantly expect more, as Tunix IT consultant Leo Willems is acutely aware. "It's the same as with E-mail. When you first have it, you don't expect too much. But after a while, you're hopping mad if the system so much as goes down for five minutes."

In the summer of 1998, KEMA and Tunix started work on a new version of the DRS. The technical design work has since been started and should be completed by about May 1999. The expectation is that the new DRS will enter service in October 1999. The Foundation is assuming that the new version will be in use for at least three years. So how have KEMA and Tunix gone about the revision?

Interactive application
"We started by asking ourselves what the Internet service providers (ISPs) – the Foundation's participants – wanted," explains De Klein. "Tunix and ourselves took a proposal out and discussed it at length with a cross-section of our three-hundred-plus members. It was a fairly long-winded process, but it provided us with a lot of information. Speed turned out not to be a problem: most applications are dealt with inside a day, which the participants were pleased with. The main area where improvements were felt necessary was in the provision of information. For instance, the ISPs wanted to be able to see the status of each individual application, so that they could keep their clients informed. With the new system, it's going to be much easier for participants and domain name owners to get information about present and previous owners, about the registration process, about appeals and about the status of pending appeals. Participants and name owners will have access to a historical database, containing the relevant up-to-date information, but will only be allowed to obtain details regarding the names they own or have applied to register."

Leo Willems adds: "And it had to be possible to process applications more quickly, more easily and on an altogether more modern basis. Previously, the applicant had to fill in an E-mail form, which was then returned showing all the errors. This wasn't a terribly convenient arrangement, so we've developed an interactive Web form that provides you with tips and explanations as you are going along. As soon as you fill in something that doesn't exist, or isn't correct, the help function is activated. We plan to build in more and more error checks, making the registration process ever more interactive. The applicant will be guided every step of the way, which is more practical and something that users seem to like. This interactive form has to be linked to our data files, which is one of the things the new system allows."

Availability and reliability
Along with convenience and up-to-date information, availability is very important to the Foundation's customers. System failures just aren't acceptable. "The availability of the new system should be virtually 100 per cent," comments Willems. "That's the system itself, I should add; problems resulting from factors beyond our control, such as the whole Internet going down or a power failure or deliberate sabotage, aren't included in that figure. Errors will be less likely, since the new system will have more frequent checks built in."

Unauthorised access

De Klein and Willems continue enthusiastically. "In 1999, it should also be easier to report problems," says De Klein. "At present, there is just a general telephone number for the Foundation, which you can only ring during office hours, and a fault report line you can use at any time. Both numbers are intended for use mainly by the ISPs. Outside office hours, calls to the fault report line are directed to an expert service desk."

Protection against unauthorised access and use of the systems has been tightened up as well. All systems that are in direct contact with the Internet are protected. "So files won't be damaged and unauthorised individuals won't be able to access confidential information," says Willems.

Annual accounts 1998

All amounts are stated in Dutch Guilders (NLG).

Balance Sheet as per 31 December 1998

Fixed assets	1998	1997
Tangible assets	41.689	80.346
Current assets		
Receivables	0	0
Accounts receivable from services rendered	0	0
Accrued assets	548.106	361.623
	361.623	361.623
Cash at bank and in hand	2.129.393	1.870.998
	2.312.967	2.312.967

	1998	1997
Capital and reserves		
General reserve	2.038.547	1.543.173
Provisions		
Provisions for special operating risks	300.000	300.000
Current liabilities		
Debts to suppliers	191.912	297.351
Taxes	170.222	164.255
Sundry debts	18.507	8.188
	380.641	469.794
	2.719.188	2.312.967

Profit and Loss Account 1998

	1998	1997
Net turnover	2.895.909	3.042.647
Costs		
Depreciation of tangible assets	-38.657	-34.760
Sundry operating costs	-2.165.749	-1.288.062
	-2.204.406	-1.322.822
Operating result	691.503	1.719.825
Interest received	79.720	63.260
Result from normal operation before taxes	771.223	1.783.085
Taxes	-275.849	-626.079
Net Result	495.374	1.157.006

General Explanatory Notes

General
The Foundation for Internet Domain Registration in the Netherlands was established on 30 January 1996.

The foundation's objectives can be described as follows:

- responsible issue and registration of domain names in Internet addresses in the Netherlands, including coordination and adjustment thereof on a national and international level, at cost-neutral rates, at the request of providers for parties connected to the Internet;
- promotion of cooperation between service providers in the area of Internet domain registration on a national and international level;
- all matters directly or indirectly related or conducive thereto, in the broadest sense of the word.

Principles of Valuation and Determination of Result

General
The principles of valuation are explained hereunder in the explanatory notes to the separate balance sheet items; if there are no notes, valuation was done at nominal value.

Determination of Result
All items in the profit and loss account are accounted for in the amounts to be attributed to the year under review.

Taxes
The company tax owed is calculated on the basis of the result, taking into account exempted profit constituents. The difference between the taxes thus calculated and the taxes payable in the short term is expressed in the provision for latent tax liabilities. This provision is calculated at the applicable rate.

Notes on the Balance Sheet

Tangible assets
Tangible assets are valuated at historical cost, less linear depreciation over time. The following depreciation rates are applied:

- inventory 20%
- computer hardware and software 33%

The mutations in tangible assets can be specified as follows:

1 January 1998	
Purchase value	115.971
Cumulative depreciation	-35.625
Book value	80.346
Mutations	
Investments	0
Depreciation	-38.657
	-38.657
31 December 1998	
Purchase value	115.971
Cumulative depreciation	-74.282
Book value	41.689

Claims

Accrued assets

	1998	1997
Interest to be received over the fourth quarter of the previous financial year	76.414	57.014
Domain mutations to be invoiced over the fourth quarter of the previous financial year	475.760	314.609
Provision for uncollectable domain mutations over the fourth quarter	-4.068	-10.000
	548.106	361.623

Capital and reserves

General reserve
The issue of the general reserve can be specified as follows:

	1998	1997
Status as per 1 January	1.543.173	386.167
From appropriation of profits	495.374	1.157.006
Status as per 31 December	2.038.547	1.543.173

Provisions

Provisions for special operating risks
This provision includes the cost of legal support relating to a number of fundamental legal proceedings. The foundation board expects this provision to be both necessary and adequate.

Taxes
The taxes can be specified as follows:

	1998	1997
Status tax	-103.156	-66.172
Company tax	273.378	230.427
Status as per 31 December	170.222	164.255

Sundry debts
The item sundry debts can be specified as follows:

	1998	1997
Innovation cost	0	0
Registration support	0	0
Accountant fees	4.600	5.800
Sundry debts	13.907	2.388
	18.507	8.188

Notes on the Profit and Loss Account

Net turnover
All of the net turnover was realized in the Netherlands, according to the following specification:

	1998	1997
Contributions by providers (NLG 2,500 per year)	198.300	483.422
Revenue from new domains (one-time contributions)	915.000	1.417.013
Revenue from domains (subscription fees)	1.302.910	1.135.631
Sundry income	179.699	6.581
	2.895.909	3.042.647

Sundry operating costs
The item sundry operating costs can be specified as follows:

	1998	1997
Office cost	1.954.345	1.219.944
Sundry costs	211.404	68.118
	2.165.749	1.288.062

Miscellaneous Data

Staff members
The foundation did not employ any staff during the year 1998.

Board members
Board members did not receive any remuneration during the year 1998.

Miscellaneous Data and Auditor's Report

Off-balance-sheet liabilities
In 1998, work began on the development of a new domain registration system for the .nl domain. The total development cost is forecast to be roughly NLG 1 million. For 1998, the costs arising from formulation of the functional and technical design have been set off against the result.

Miscellaneous Data

Profit appropriation according to Articles of Association
Article 3, subsection 1 of the Articles of Association reads:

- The foundation's capital is made up of all contributions, subsidies, donations, bequests and testamentary dispositions received, as well as other assets.

Result appropriation
The board decided to add the result achieved in 1998 to the general reserve

Auditor's Report

Assignment
We have audited the 1998 annual accounts of the Foundation for Internet Domain Registration in the Netherlands at Amsterdam. The annual accounts were prepared at the responsibility of the foundation board. It is our responsibility to issue an auditor's report relating to the annual accounts.

Activities
Our audit was conducted in accordance with generally accepted auditing guidelines. These guidelines require our audit to be scheduled and performed in such a manner as to provide adequate certainty that the annual accounts do not contain any significant errors.

An audit includes an examination by means of partial observations of information in support of the financial figures and the explanatory notes to the annual accounts. Moreover, an audit comprises an assessment of the financial reporting principles used in the preparation of the annual accounts and of important estimates made by the operational management for this purpose, as well as an evaluation of the overall impression of the annual accounts. We are of the opinion that our audit provides a sound basis for our judgment.

Judgment
In our judgment the annual accounts are a true reflection of the size and composition of the capital and reserves on 31 December 1998 and of the result achieved in 1997 in accordance with generally accepted financial reporting principles; hence, they are in compliance with legal requirements regarding the annual accounts as included in Titel 9 BW2.

Arnhem, 4 March 1999,

Coopers & Lybrand N.V.