



SIDN Annual report 1996



Personal Details

Foundation Board

B. Nederkoorn, Chairman
R.J.T. Lindgreen, Secretary
P.A.M. Oude Ophuis, Treasurer
P. Beertema
P.W. Morée
N.A. Vermeulen

Foundation Office

Ms. H. Beverdam, Secretariat
Ms. M. Hoff, Accounting
P. Beertema, Technical Management

H.W. Wefers Bettink, Legal Adviser
P.I. van Beijnum, Chairman to the Council of Participants



Introduction

From the mid-1980s up to 1996, domain name registration in the .NL domain has been a responsibility of the Centre for Mathematics and Information Science (Dutch acronym: CWI) in Amsterdam. In the latter half of 1995, however, it became apparent that the CWI would no longer be able to bear this responsibility due to the extremely rapid expansion of the Internet.

The performance of all technical and administrative tasks involved in domain name registration had always been in the capable hands of Piet Beertema of the CWI. The realization that he would soon have to lay down these tasks necessitated action to prevent the quality of the registration process from being affected and the result of ten years of meticulous, hard and expert work being lost.

CWI, Nlnet and SURFnet decided to establish a legal person to take over CWI's tasks from 1996 onwards. The founders had five objectives in mind that were all to be accomplished before the end of 1996:

- the legal person was to be incorporated;
- a sound economic basis had to be found for the registration activities;
- regulations relating to domain name registration had to be revised;
- a subcontractor had to be found to take over CWI's tasks;
- the registration system was to undergo technical renovation.



Every Toddler Its Own Home Page

Today the computer is a perfectly normal part of everyday life. The number of computers used at home and in the office is still growing. In the early 1960s, however, the situation was totally different.

Piet Beertema, who was assigned by the Centre for Mathematics and Information Science (Dutch acronym: CWI) the task of maintaining the registration of Internet domains under the NL top level domain for many years, still has a clear recollection of those early days. "In 1965 I started working for the Dutch National Aviation and Aerospace Laboratory. That is where I was first introduced to what was then called a 'computer'. The data input of this machine was still on paper rather than by means of disks or CD-ROMs and it operated at a speed of "no less than" 0.0017 Mips (Millions of Instructions per Second). A modern computer can easily reach a speed of about 500 Mips." Soon afterwards, in 1966, Beertema was employed by CWI. At present he is still working there and focusing primarily on computer networks.

Networks has truly been the operative word throughout his career. "These days, everyone is familiar with the 'Internet', but it hasn't always been this way", Beertema remembers. "In the US there was something called the ARPAnet, the precursor of the present Internet. It was a network enabling military institutions and later also scientific institutes to maintain rapid, easy and reliable contact. Access to this network was definitely restricted." In 1988 Beertema assisted in the linking of the US ARPAnet to what might be called the 'European network'.

"In those days a connection to the Internet was not for sale in any department store. It involved a fair amount of negotiation and lobbying before the connection was finally made."

"If anyone had told us then that there would someday be an Internet connection to every home, he would have been ridiculed for sure, if only because at that time the cost was absolutely prohibitive and transmission rates were very low. All this is only ten years ago and today even toddlers can surf the Internet or have their own home pages", Beertema points out. "As a result, the number of domains grew so rapidly that the then current registration system was no longer adequate. At that point in time, the name registration system in use for the ARPAnet was adopted, which meant that things in the Netherlands stayed pretty much the same." Beertema, who knows the Internet like the back of his hand, occupied himself with this registration system and received support from the CWI. "At first things went pretty smoothly. Each week a certain number of applications were received and processed. However, as the Internet expanded, the increase in the number of domain applications kept equal pace. In view of the increase in the amount of work involved, which was also caused to a significant extent by the commercialization of the Internet and related legal problems, responsibility for the NL top level domain was transferred to the Foundation for Internet Domain Registration in the Netherlands in early 1996. A year later, in early 1997, the foundation subcontracted the actual registration work to KEMA".

What about Beertema himself? He is still in the network business. "On commission by the CWI I am currently working with a number of partners on a project aiming to increase the transmission rate of network communication to 600 Megabits per second. If we succeed, the next target, 1 Gigabit, will not be far away. That's quite an improvement from the 300 Bits per second we had to content ourselves with back in 1982."



Foundation for Internet Domain Registration in the Netherlands

The legal person to be incorporated was to be responsible for well-organized domain name registration, continuous involvement of service providers, a healthy cost-effective economic basis for service provision and adequate regulations.

As regards the legal person to be established, a choice had to be made between a company, an association or a foundation. A company was unsuitable because it would not adequately reflect the non-profit nature of the organization. An association of service providers offered the attractive prospect of democratic structures, but would on the other hand be highly dependent on the (permanent) cohesion between members, a lack of which might jeopardize continuity. A foundation would best guarantee stability and continuity, but would also entail the inherent risk of insufficient openness towards the service providers to whom the foundation would be rendering services. Finally, a hybrid form was opted for: a foundation with an additional Council of Participants with its own chairman.

The Foundation Board is obliged to ask the Council of Participants' advice before taking decisions on the composition of the board, the establishment of regulations governing domain name registration or the rates charged to cover the costs. Although the board is under no obligation to follow the council's advice, it did so on all occasions in the year 1996.

When the foundation was established on 30 January 1996, its board was composed of the following members: Piet Beertema (CWI), Ted Lindgreen (Nlnet) and Boudewijn Nederkoorn (SURFnet). The Council of Participants elected Iljitsch van Beijnum (bART) as its chairman. Following the Council's advice, three new members were added to the board as of 1 April: Peter Moree (Dataplace), Nick Vermeulen (Wirehub!) and Peter Oude Ophuis (DiVa). In 1996 twelve board meetings were held. The Council of Participants held its first meeting on 26 March 1996. At that point, 60 providers had registered. By the end of the year under review, 166 participants had registered. The Council of Participants met four times in 1996.



Economic Basis

As of 1 April 1996, domain name registration was no longer free of charge (up until then the CWI had borne all costs!). The rate structure in 1996 consisted of a fixed annual contribution of NLG 2,500 by each participating provider, a registration fee of NLG 100 for each domain name and a fee of NLG 100 for each mutation. At the end of the year it was decided to continue these rates for the first six months of 1997. The number of registrations increased from 3300 in early 1996 to 9215 by the end of the year.

Regulations

On 14 October 1996 the new Regulations became effective. In the preparatory phase the central question was to what extent liberalization of the regulations was possible, also with a view to relations with trademark law. Finally, a moderate degree of liberalization was opted for, whereby the applicant bears responsibility for his choice of a name (the foundation no longer inspects whether the name adequately reflects the actual contents to which it is linked), but with general or generic names that may lead to confusion being prohibited. Geographical names are also prohibited. The applicant must sign an indemnity statement to the effect that both the provider and the foundation are indemnified against claims by third parties that the selected name was wrongfully registered. The requirement of registration with the Chamber of Commerce was mitigated in the sense that registration in certain other registers that are recognized by the foundation would also be accepted. There is a formal procedure to appeal against a decision to reject a name. For legal advice the foundation enlisted the services of Wolter Wefers Bettink of Houthoff Lawyers and Notaries.

By the end of the year, it was decided for reasons of efficiency and expeditiousness that the registration process would (continue to) be fully electronic. All hardcopy was to remain with the provider, through whom the applications and mutations would be made. This creates a mutual dependence between the foundation and the providers. To be able to determine responsibilities properly, the participants and the foundation sign an explicit statement to mutually indemnify each other in respect of a number of matters which the other party cannot influence.

Execution of the Foundation's Tasks

A professional organization was sought as a subcontractor to execute the foundation's tasks on a daily basis, maintaining the existing quality level. An important precondition was that the company or institute in question must not be a participant in the foundation, nor operate as a service provider. On 31 May 1996 a number of companies were invited to give a presentation on 25 June 1996, indicating how they expected to perform the activities. Following these presentations, two tenderers were invited to submit a final quotation. These quotations were received in mid-August and after their review by the board, the decision was made to grant the order to KEMA Nederland B.V. in Arnhem.

In the final quarter of 1996 KEMA became progressively more closely involved in the registration activities. Until the end of the year, however, the execution continued to be a responsibility of Piet Beertema, who was supported by the temporary foundation office that had meanwhile been set up and was staffed by Hetty Beverdam. The financial records were temporarily managed by Miranda Hoff in 1996.



Renovation of the Registration System

The transfer from CWI to KEMA required an innovation route to be able to set up a new technical system to support the issue and registration of domain names in the Netherlands. On this innovation route, there was close cooperation between KEMA and Tunix Open Systems Consultants in Nijmegen. During this entire process, close consultations were held with the board and intensive use was made of Piet Beertema's expertise.

The development activities commenced by mid-October and on 13 January 1997 the new registration system was put into operation, with KEMA being fully responsible for the execution of all foundation tasks. Sooner than the board had dared to hope, all teething troubles were overcome. The new system uses advanced automated procedures, enabling correctly filed applications to be fully dealt with in just a few days' time.



Annual accounts 1996

All amounts are stated in Dutch Guilders (NLG).

Balance sheet as per 31 December 1996

Fixed assets		
Tangible assets		4.326
Current assets		
Receivables		
Accounts receivable from services rendered	66.681	
Accrued assets	<u>290.871</u>	
		357.552
Cash at bank and in hand		<u>968.283</u>
		<u>1.330.161</u>
Capital and reserves		
General reserve		386.167
Provisions		
Provisions for special operating risks		300.000
Current liabilities		
Debts to suppliers	79.665	
Taxes	281.050	
Sundry debts	<u>283.279</u>	
		643.994
		<u>1.330.161</u>

Profit and Loss Account 1996

Net turnover		1.397.175
Costs		
Depreciation of tangible assets	865	
Sundry operating costs	<u>809.833</u>	
		-810.698
Operating result		<u>586.477</u>
Interest received		<u>10.771</u>
Result from normal operation before taxes		597.248
Taxes		<u>-211.081</u>
Net Result		386.167



General Explanatory Notes

General

The Foundation for Internet Domain Registration in the Netherlands was established on 30 January 1996. In view of this date of establishment, no comparative figures are included in these annual accounts.

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 item "provision for latent taxes". This provision is calculated at the applicable rate.



Notes on the Balance Sheet

Tangible assets

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

- investments 20%
- computer hardware and software 33%

The mutations in tangible assets can be specified as follows:

Status as per 30 January 1996	
Purchase value	0
Cumulative depreciation	0
	0
Mutations	
Investments	5.191
Depreciation	-865
	4.326
Status as per 31 december 1996	
Purchase value	5.191
Cumulative depreciation	-865
	4.326

Accounts receivable from services rendered

Debtors are valued at nominal amounts, subtracting a provision for bad debts.

The accounts receivable from services rendered can be specified as follows:

Accounts receivable from services rendered	81.681
Provision for bad debts	-15.000
	66.681

Accrued assets

Interest to be received over the fourth quarter of 1996	10.621
Domain mutations to be invoiced over the fourth quarter of 1996	280.250
	290.871



Capital and reserves

General reserve

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

Stand per 30 januari 1996	0
Uit de winstverdeling	386.167
	386.167

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:

Sales tax	69.969
Company tax	211.081
	281.050

Sundry debts

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

Innovation cost	230.100
Registration support	45.000
Accountant fees	5.000
Sundry debt	3.179
	283.279



Notes on the Profit and Loss Account

Net turnover

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

Contributions by providers (NLG 2,500 per year)		253.600
Revenue from new domains (one-time contributions)	575.100	
Revenue from domains (subscription fees)	568.475	
Contributions for domain registration		1.143.575
		1.397.175

Sundry operating costs

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

Allocation to provision for special risks	300.000
Office cost	252.114
Innovation cost	230.100
Sundry costs	27.619
	809.833

Miscellaneous Data

Staff members

The foundation did not employ any staff during the year 1996.

Board members

Board members did not receive any remuneration during the year 1996.



Miscellaneous Data and Auditor's Report

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 1996 to the general reserve..

Auditor's Report

Assignment

We have audited the 1996 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 1996 and of the result achieved in 1996 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, 16 May 1997,

Coopers & Lybrand N.V.