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Report prepared for



中華人民共和國香港特別行政區政府
The Government of the Hong Kong Special Administrative Region
of the People's Republic of China

Consultancy study on the Institutional Framework and Corporate Governance for the Administration of Internet Domain Names in Hong Kong

**Deliverables 5 & 6 (Combined):
Report on gap analysis and implementation planning**

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1. INTRODUCTION

The Office of the Government Chief Information Officer (OGCIO) of the Government of the Hong Kong Special Administrative Region Government aims to review the institutional framework and corporate governance for the administration of Internet domain names in Hong Kong in order to make recommendations with implementation proposals on how the existing framework and arrangements can be improved.

Since the governance and administration arrangements for the .hk domain were put in place, there have been a number of developments which may impact on them. First of all, an increasing importance of national governments role, as the proportion of ccTLD domain name registrations have continued to grow reaching in 2005 about 40% of the total number of registered domains worldwide¹. So the question of the role of national governments within the administration of national domain names has moved to the forefront. Second, changes to Internet governance at global level, with significant debate particularly on the role of ICANN. Third, an evolving though fragmented understanding of what constitutes good practice in ccTLD governance and administration. Fourth, new challenges raised by technological changes for national ccTLD governance regimes.

These factors amount to a significant change from the environment in which the current Hong Kong domain name administration arrangements were established.

Against the context of environmental change described above, the OGCIO has set the objectives for the study that are listed in Figure 1 below.

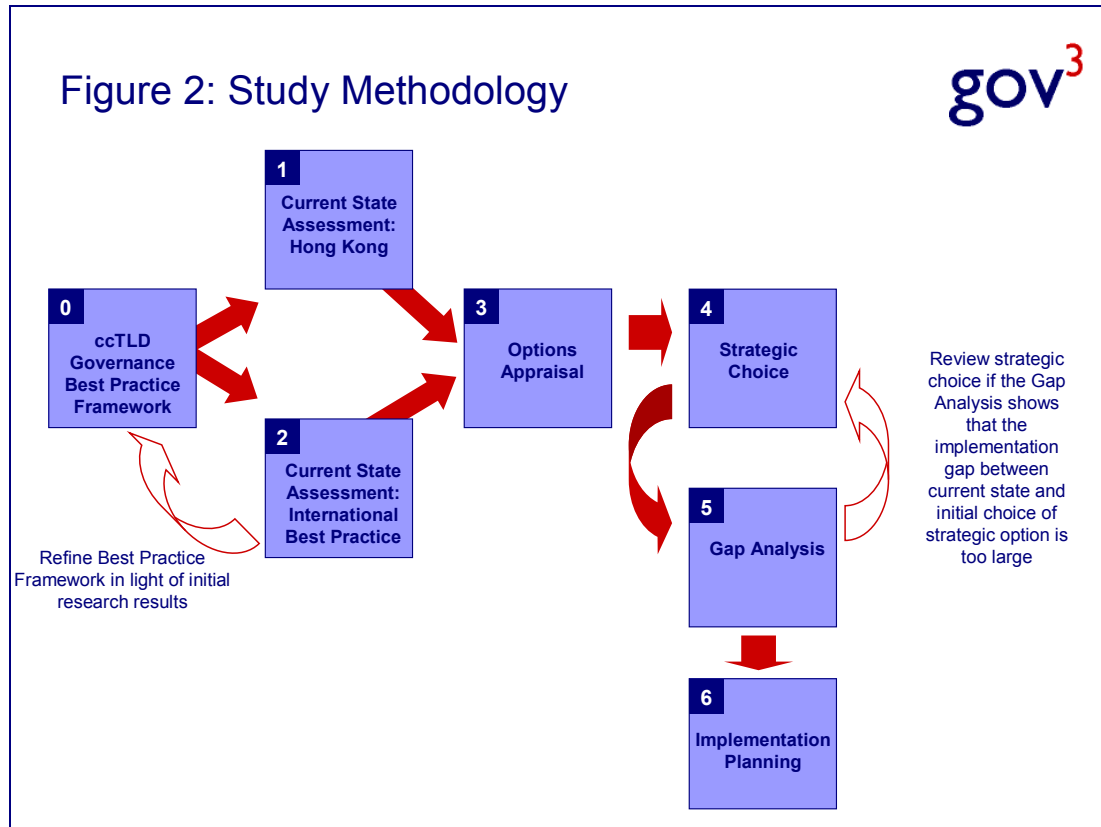
Figure 1: Study Objectives

- (a) understand the interest and expectation of the relevant stakeholders and the Internet community in relation to the governance, management and administration of Internet domain names in Hong Kong
- (b) review the current state and development of the institutional framework and corporate governance for the management and administration of Internet domain names in Hong Kong, including a review of the working relationships between the HKIRC and the Government
- (c) identify the best practices of governing, managing and administering country-code top level domains (ccTLD) around the world
- (d) develop and propose an institutional framework for the governance, management and administration of Internet domain names in Hong Kong to the best advantage of the Hong Kong community having regard to the latest international and regional developments, including the emergence of new or sponsored top level domains, ENUM3, IPv64
- (e) make recommendations with implementation proposals on how the existing institutional framework and corporate governance arrangements can be improved and developed into the proposed institutional model.

¹ Verisign data, 2005.

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Figure 2 illustrates the methodology proposed by Gov3 to carry out the study and achieve the listed objective.



The present document is the joint report on gap analysis and implementation planning. As a result of the workshop held in Hong Kong during the week of June 19 2006, and in light of the content of deliverable four on the best institutional and governance model for Hong Kong, we deemed possible – and indeed helpful – to combine the gap analysis and implementation planning into a single document. We are recommending, in fact, a way forward based on enhancements to the existing governance arrangements, thus the gap analysis will not be as significant a task as it might have been if we were recommending rather than a wholesale and radical shift to a new model.

Accordingly in **Chapter 2**, we briefly compare the current state with the proposed reformed scenario presented in **deliverable four** and consequently identify the key actions required to fill the gap between the ‘as is’ and the ‘to be’ state. In this section, we simply list the actions that will need to be undertaken, by both OGCIO and HKIRC, without setting out how these actions would be undertaken, the sequential timing or the logical concatenation.

In **Chapter 3** we then set out an overall framework of the implementation plan identifying major work streams and related tasks. This plan focuses on the actions which the Hong Kong Government will need to take. Many of these are crystallised via the new Memorandum of Understanding, and our recommended draft of the new MoU is at **Annex A**. At **Annex B** we set out an analysis of areas where HKIRC’s Memorandum and Articles of Association (“M&A”) will need updating. In addition, if the

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HKIRC board decides it wishes to proceed in the direction which we are recommending to the Government, then it would need to develop its own very detailed implementation plan. It is outside the scope of this assignment to undertake that detailed planning, and indeed it would not be appropriate for a Government-commissioned study to recommend actions for a private organisation.

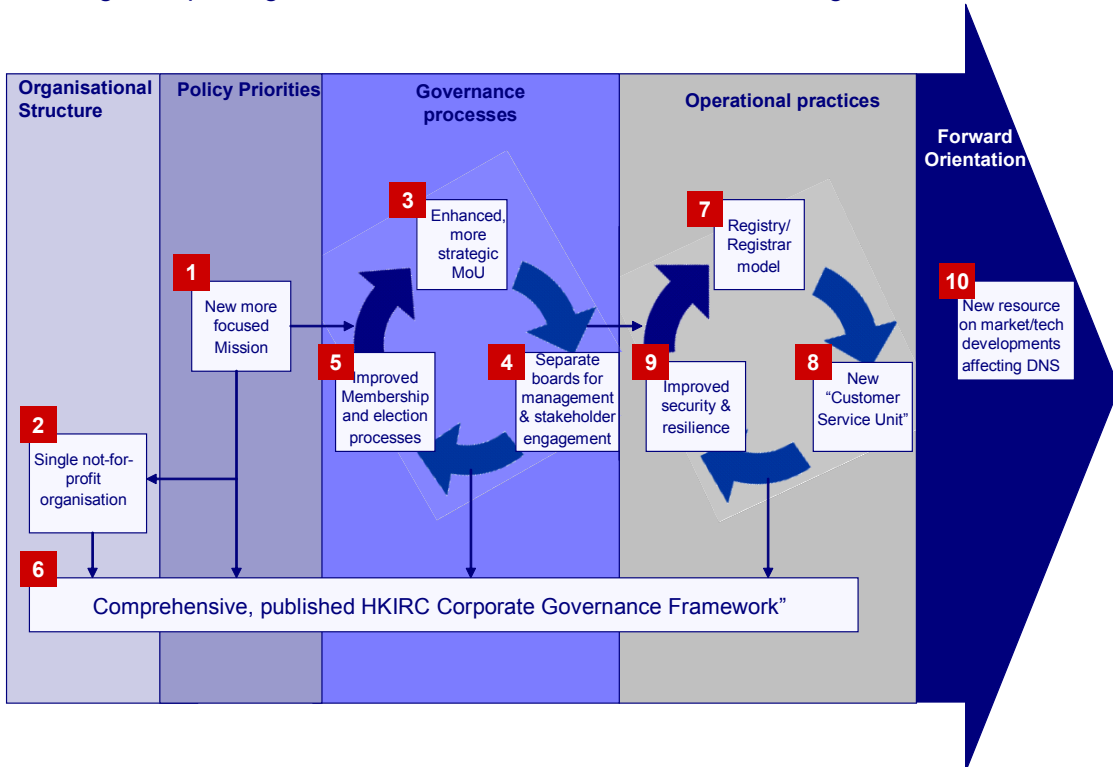
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2. GAP ANALYSIS AND KEY ACTIONS REQUIRED

Premise

As we explained, both in the presentation delivered during the Hong Kong workshop and in deliverable 4 (pp. 12-13), the current organisational model for .hk is unclear and ambiguous, contributing to a number of the governance tensions identified during the Current State Assessment. Accordingly, starting with a revised MoU as the building block streamlining the relations between the Government and HKIRC, our basic recommendation has been to refocus and better define the organisational mission and scope for the reformed .hk ccTLD managing organisation, to define a clear policy priority mix. From this a number of complementing changes have also been recommended, resulting in ten “points of difference” between the current state and an ideal future state for governance of domain name registration in Hong Kong, as illustrated below

An integrated package of reform across all dimensions of ccTLD governance



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As a general reference point extracted from the international research we have also recommended that Hong Kong Registry would move toward a model positioned somewhere between the UK and Australian/Canadian models. Accordingly, we supplemented the wide-ranging international best practice study carried out under Tasks 2.1 with telephone/face-to-face interviews in the UK and Australia to inform the present report.

Such additional research further validated our recommendations thus inspiring the actions to fill the gap between the current state and the reformed scenario listed in this chapter and then elaborated in the implementation plan presented in next chapter.

Note that the order by which the various changes are listed below do not entirely reflect the way the **10 points of differences** are presented in **deliverable four**, and also that they are re-grouped into only six paragraph. The reason for this restructuring will become fully clear when the timing and logic of work streams concatenation is presented in chapter 3, while here we limit ourselves to explain the repositioning of the new MoU and of the organisational structure. In **deliverable four**, following the conceptual model used throughout our study (organisational structure, policy priorities, governance processes, operational practices, forward orientation), the new MoU came as difference 3 within the governance block, while the new organisational structure came as difference 2. In this report the new MoU is considered as the building block for the subsequent implementation of the changes needed to move from the current state to the reformed scenario and it has been thus treated at the beginning (as par. 2.0) and separated from other changes related to governance (discussed in par. 2.2). Complementary to the new MoU the redefined organisational scope and policy priorities are grouped under the heading “foundations” (par. 2.1). The merger of HKIRC and HKDNR into one single not for profit organisation is listed here separately and moved down in the order for two connected reasons. First, as set out in **deliverable four**, this change does not necessarily need to be implemented in the shortest term. Second, after most of the basic changes have been accomplished, a better informed and final decision can be made whether to go ahead with it.

2.0 Registry-government relationship: New MoU

The building block for leading the Hong Kong registry from the current state to the reformed scenario is to draft a new Memorandum of Understanding that streamlines the relations between government and registry.

Current state. The international desk research shows that the relationship between the ccTLD registry organisation and the government can take three basic forms: a) informal; b) embedded in a law or a MoU; c) direct when the registry is part of the government. Hong Kong falls into the second category but with some critical issues. The Current State Assessment identified a lack of clarity and consensus about the appropriate role for Government in the governance of HKIRC/HKDNR and a number of stakeholder issues concerning the relationship between the government and the administration of .hk. Many stakeholders would welcome clearer strategic direction and engagement from the Government; on the other hand, many questioned whether there needed to be any Government involvement at all in operational issues.

Reformed scenario. In our *Best Model Report* we propose a situation characterised by a **stronger Government engagement at a strategic level - embedded in the revised**

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MoU – coupled with a reduction in Government involvement with operational management. Such firmer control at the strategic level is to be reflected into a clearer and more outcome-focused Memorandum of Understanding (MoU) setting out:

- The organisational scope and related tasks for the ccTLD registry;
- The mix of policy priorities;
- New governance arrangements and roles;
- The strategic objectives for the first duration of the MoU (i.e. 5 years) to be reflected into the registry strategic plan;
- The outcome targets to monitor the performance of the ccTLD administration to be reflected in the registry performance measurement system.

A first draft proposal of this revised MoU is presented as Annex A of this report.

Actions to fill gap. Being the building block, as will be better illustrated in paragraph 3.1, the actions concerning the MoU will have to be undertaken during a preparatory period that, assuming the revised MoU is being signed, will enable HKIRC to define and launch its implementation plan to move from the current state to the reformed scenarios. Such actions include:

- **For the Hong Kong Government:**
 - Discuss and revise the draft new MoU we propose (see Annex A) and draft a new formal draft version of the MoU;
 - Submit such document and other relevant aspects of Gov3 study to a consultation first with HKIRC and then to a public consultation with other stakeholders;
 - Approve and publish the new MoU in the light of the consultation and after a validation workshop to be held with HKIRC Board members.
- **For HKIRC:**
 - Review and comment on the draft MoU proposed by the Government
 - Subsequently feed in any further comments that may be appropriate during the public consultation phase
 - Participate in the validation workshop with the Government after public consultation.

It must be noted that the current state assessment has also evidenced that there are some discrepancies between HKIRC's responsibilities documented in the MoU (between the Government and HKIRC) and the objects and powers of HKIRC in its Memorandum of Association and Articles of Association ("M&A"). Once the new MoU is approved the "M&A" will also have to be revised and aligned to it. At Annex C, we include a table summarising the areas where the current M&A will need changing. In some areas – notably, aligning the objectives of the organisation with those proposed in the new MoU – we have suggested detailed drafting. In other areas, such drafting will depend on further actions to be taken as part of HKIRC Implementation Plan, so it is not yet possible to provide appropriate text.

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2.1 Foundations: organisational mission, scope, policy priorities

Current state. The field research evidenced that [

This part of the document is not disclosed. Please refer to endnotes (1) and (4).

] In a simplified fashion the differing views, on the organisational scope and the policy priorities range, respectively on the following two dichotomies:

- A broader organisational scope including issues beyond the administration of .hk versus a narrower focus only on the ccTLD administration;
- “Open governance” versus “Market orientation” as the main focus of policy priorities;

Reformed scenario. In our report on the “best institutional and governance model for Hong Kong” (henceforth referred to as *Best Model Report*) we foresee a reformed scenario with:

- Organisational scope limited to the administration of ccTLD, embedded into a revised organisation mission, from which clear cut tasks to be assigned to the registry organisation are derived (see draft MoU at Annex A);
- Clearly defined and agreed upon policy priorities mix that would position Hong Kong somewhere between the UK and Australian/Canadian models, thus combining both a market and a governance focus.

Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario, to be closely aligned with the guidelines and principles established in the new MoU, are the following:

- **For the Hong Kong Government:**
 - Elaborate the principles it would like the organisation receiving the .hk delegation to work to in the new MoU (see Section 2.0 above)
- **For HKIRC:**
 - Elaborate and discuss new draft mission statement, objectives and priorities aligned with the new MoU;
 - Submit to a broader stakeholders consultation;
 - Revise and publish documents.

2.2 Governance arrangements

2.2.1 Governance bodies

Current state. The Current State Assessment pointed out that [

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]

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Reformed scenario. In our *Best Model Report* we see, as a solution to the current dysfunctional governance processes, **operational governance and stakeholder engagement separated - through the establishment of a new Consultative and Advisory Panel (CAP) and a smaller, more focused and “professionalized” Board.**

The proposal below, taken from **deliverable four** are only illustrative and tentative, the actual solutions will have to emerge from a consultation exercise.

- The **CAP** will be the new body of governance established precisely to deal with issues with policy and political implications:
 - **CAP** possible mandates:
 - Launch consultation processes on issues that the Board directly refers to the CAP given their policy and political implications;
 - Advise the Board on important issues such as domain names registrations rules, pricing, changes of internal governance arrangements;
 - Monitor the degree to which the Board and its member provide feedback to and seek the views and opinions of customers and potential customers and consider marginalised stakeholders are such as the digitally disadvantaged;
 - Help Board achieve the above by facilitating the interaction with stakeholders in general and with specific interest groups
 - A possible composition of the **CAP** is the following
 - One member nominated by OCGIO as the Government representative;
 - One member nominated by the Board from among its Directors (see *infra*);
 - 4-6 members elected by the organisation membership;
 - 6-8 invited from relevant interest groups representative associations by HKIRC
-
- With the policy and political engagement of key stakeholders being undertaken via the new **CAP**, the current **Board** can be reduced in size (from the current 13 Directors to only 6-8 Directors) to allow more effective strategic and operational management, as follows;
 - 3 Directors appointed following an open recruitment exercise and consultation with relevant stakeholders within the CAP, from among candidates with solid professional and managerial credentials;
 - 3 Non Executive Directors elected by the organization members;
 - The Chairman should be one of the appointed directors.

Thus restructured the **Board** will be able to focus on strategic and operational governance, making the needed decisions in an effective and efficient manner, supervising the work of the CEO and other professionals included in the organisation top management and ensuring that it reflects the principles and objectives included in the MoU and the strategic plan.

Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario are the following

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- **For the Hong Kong Government:**
 - Include the proposal to create the **CAP** and restructure the **Board** in the consultation document issued following completion of the Gov3 study
 - Assuming that a consensus is reached on the proposal and on the general principles for the design of the new bodies of governance, include in the final MoU a requirement for HKIRC to plan, consult on and implement the detailed changes needed to achieve this restructuring.

- **For HKIRC:**
 - Field mission to opportunely selected countries (we recommend UK, Germany, France and Australia) to gather in depth information and stakeholder views on the concrete and detailed operational functioning of governance bodies;
 - Review options and select most suitable solution for Hong Kong;
 - Draft proposal outlining the design of the new bodies of governance;
 - Submit the proposal to a broad stakeholders consultation;
 - Revise designed solution in light of stakeholders input and release it.
 - Agree Board Migration Plan with OGCIO
 - Establish new Appointments Committee as sub-group to Board (responsible for overseeing the open appointments process), and invite OGCIO to attend as a non-voting member.

2.2.2 Organisational membership and election/appointment processes

Current state. The current membership and Board election processes need to be revisited and rationalised [

This part of the document is not disclosed. Please refer to endnotes (1) and (4).

] Knowledge about membership of the organisation is limited and the process to become a member cumbersome. Membership classes appear at the same time redundant and not exhaustive and [

This part of the document is not disclosed. Please refer to endnotes (1) and (4).

]

Reformed scenario. In the new rationalised scenario:

- Membership registration process will be simpler;
- Membership classes will be streamlined;
- Qualification requirements for Board nominees will ensure they are qualified to do the job (i.e. do they have the right skills, experience, commitment, ethical standards);
- Board nominees will disclose information about their qualifications, experience and interests to ensure members can reach informed voting decisions.
- Mandatory corporate governance training for all elected Board Directors will be introduced.

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Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario are the following:

- **For the Hong Kong Government:**
 - Include the high-level proposal to streamline the membership process, and simplify membership classes and the election process in the consultation document issued following completion of the Gov3 study
 - Assuming that a consensus is reached on the proposal, include in the final MoU a requirement for HKIRC to plan, consult on and implement the detailed changes needed to achieve this simplification.

- **For HKIRC:**
 - Field mission to opportunely selected countries (we recommend UK, Canada, France and Australia) to gather in depth information on detailed concrete operational functioning of: a) membership registration processes; b) rules and procedures for elections in bodies of governance.
 - Review options and select most suitable solutions for Hong Kong on: a) definition of membership classes; b) membership registration; c) qualification requirements for Board nominees and appointees; d) elections rules and procedures;
 - Draft proposal outlining the design on the four items above
 - Submit solutions to stakeholders' consultation;
 - Revise designed solutions in light of stakeholders input and release them.

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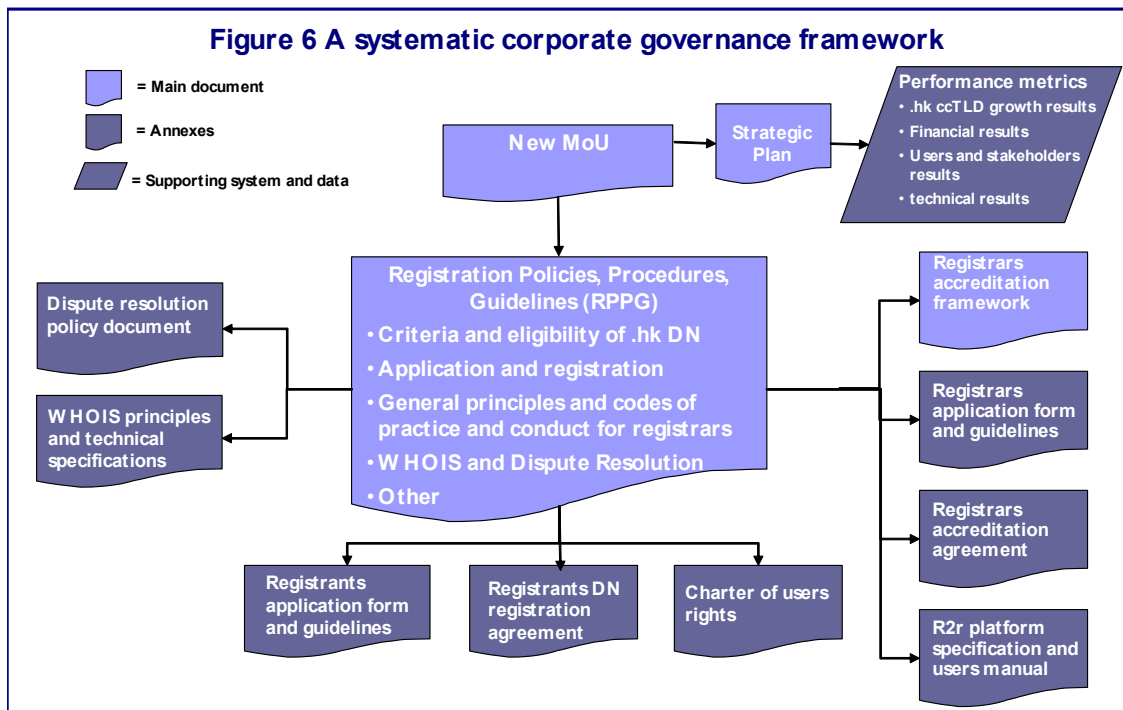
2.2.3 Transparent and accountable “HKIRC Corporate Governance Framework”

Current state. Currently several documents pertaining to policy and strategy are in place, however, they: a) reflect the current state of affairs that will have to change to achieve the reformed scenario; b) are not integrated into a systematic and coherent framework. [

This part of the document is not disclosed. Please refer to endnotes (1) and (4).

]

Reformed scenario. Under the new model we propose several policy and strategic documents and elements derived from, and supporting, the new MoU that will form a systematic transparent and accountable framework, as illustrated in figure 1 below.



As illustrated, this framework derives from the MoU and includes three key elements integrated by some supporting component.

First, there is the basic policy and regulatory document “Registration Policies, Procedures, Guidelines” (RPPG), henceforth indicated with the acronym RPPG, that will reflect some of the principles embedded in the MoU and further flesh them out. In particular the RPPG will establish

- Eligibility and access criteria for .hk domain names

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- General principles and procedures for the application and registration of .hk domain names (including principles to preserve users' interest and ensure users satisfaction);
- General principles of openness, transparency and stakeholders involvement for the management of ccTLD registry (including stakeholder consultation mechanisms)
- Rules and procedures for domain names modifications, change and transfer;
- Other issues related to domain name registration (i.e. domain name format, reserved domain names, ect);
- General registrars accreditation principles, as well as registrars codes of practice and conduct.

The RPPG main document will be complemented by the following annexes on:

- Dispute resolution policy;
- WHOIS principles and technical specifications;
- Registrants application form and guidelines;
- Registrants domain name registration agreement with the Registry.
- Charter of users right

Second, the strategic plan that will have to be drafted yearly. This means not simply defining its structure and content, but also the strategic planning processes and responsibilities needed to make it part of the operational functioning of the organisation. This will have to be supported by a new performance measurement system as the building block of strategic control.

Finally, on the right end side of the figure there is a basic document ("Registrars Accreditation Framework) and supporting annexes related to the Registry-registrars system we recommend to implement. While the general principles for this are to be contained already in RPPG, its development is discussed under the specific paragraph devoted to this recommendation.

Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario are the following:

- **For the Hong Kong Government:**
 - Include the high-level proposal that HKIRC should publish an annual Strategic Plan, and the RPPG and supporting documentation, in the consultation document issued following completion of the Gov3 study
 - Assuming that a consensus is reached on the proposal, include in the final MoU a requirement for HKIRC to plan, consult on and implement the detailed work needed to develop this documentation.
- **For HKIRC:**
 - Desk research to review policy, regulatory and operational practices documentation in place in other relevant ccTLDs
 - Review and analyse already existing HKIRC documents covering the areas of the mentioned RPPG and of its annexes;
 - Perform gap analysis between such existing documents and the best solutions identified during desk research;
 - Draft RPPG and related Annexes;
 - Submit RPPG and related Annexes to stakeholders' consultation;

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- Revise RPPG and related annexes in light of stakeholders input and release them;
- Define the structure and content of future strategic plans and produce a first exploratory version of the Strategic Plan for 2007;
- Identify and formalise the roles, responsibilities and process that will support in the future the strategic planning function making it a structural component of the new organisation;:
- Design a Performance Measurement System (PMS), and agree it with the new Consultative and Advisory Panel.

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2.3 Operational practices

2.3.1 Registration model

Current state. As shown in the international research, in all of the countries surveyed, except Finland where registration is managed directly by the Registry (FICORA), a Registry-registrar system is in place. Hong Kong, therefore, stands out as the only case having a registry dealing directly with registration [This part of the document is not disclosed. Please refer to endnotes (1), (3) and (4).]. As affirmed by the OECD, “an attribute of widely used ccTLDs is that they tend to encourage a registry-registrar model”². [

This part of the document is not disclosed. Please refer to endnotes (1), (3) and (4).]

Reformed scenario. While implementing the system after the launch of the Chinese domain names is a sensible and pragmatic choice, we strongly recommended to adopt this system and to start right after the end of this study to gather the needed additional empirical evidence and to prepare the regulatory and operational framework to manage such system. Going back to the overall policy and strategic framework illustrated earlier in figure 1, the regulatory and operational framework on which the Registry-registrars system will rest includes one basic document and three supporting annexes.

Registrars Accreditation Framework in the form of a “Registrars Accreditation Principles, Requirements and Procedures” document , defining:

- Responsibilities and scope of services to be provided by registrars to end users;
- Responsibilities and scope of activities needed to provide the Registry with access to, and control of, critical technical functions including for instance:
 - a. the primary and secondary .hk name servers;
 - b. zone files for second level domains;
 - c. searchable data base containing information on registrations within the .hk ccTLD (WHOIS)
- Financial and organisational requirements needed for accreditation;
- Technical requirements needed for accreditation;
- Application procedure;
- Application fees and accreditation fees duration;
- Wholesale prices per registered domain names.

Such framework will be complemented by the following annexes:

- “Registrars Application Form and Guidelines”, providing registrants with all needed information for the successful completion of an application for accreditation;
- “Standard Registrars Accreditation Agreement”, which ” that the successfully accredited registrars will sign with the Registry;
- “R2r Platform Technical Specifications and Users Manuals”, providing all the relevant technical information on the technological platform on which the system is run and a users manual from operation by the registrars.

² OECD, *Evolution in the Management of Country-Code Top-Level Domain Names (ccTLDs)*, Dublin, 2006, p. 3.

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Moreover, we recommend that the design and launch of the Registry-registrars system becomes the occasion to implement the recommendation of the Audit Report regarding the improvement of the security of the Internet domain registration system, which so far have not be realised yet. **Therefore, we consider the implementation of the Registry-registrar model also the opportunity to enhance security and resilience (difference 9) taking into account the recommendations of the audit report.**

Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario are the following:

- **For the Hong Kong Government:**
 - Include the high-level proposal that HKIRC should implement a Registry/Registrar model in the consultation document issued following completion of the Gov3 study – and seek stakeholder views in particular on whether in such a model HKIRC should be allowed to continue operating direct registration (as in the UK and Germany), or whether it should be restricted to the Registry role (as in most other countries reviewed in this study)
 - Assuming that a consensus is reached on the proposal, include in the final MoU a requirement for HKIRC to plan, consult on and implement the detailed work needed to implement Registry/Registrar.

- **For HKIRC:**
 - Field mission to four opportunely selected countries to gather very detailed information on: a) Financial, organisational and technical accreditation requirements; b) Application procedures and fees; c) Wholesale pricing system;
 - Analyse the current wholesale and retail pricing system in Hong Kong by gathering data from resellers;
 - Carry out a customers and potential users survey to analyse needs and expectation regarding pricing and services;
 - Comparative analysis of gathered data (field mission, pricing study, customers survey) and select solutions (for all relevant parameters) most suitable for Hong Kong
 - Elaborate Registrars Accreditation Framework and related annexes ensuring the simplification of domain name registration process for final users and by embedding the simplified procedure (foreseeing the possibility of direct online registration) as a mandatory requirements for registrars accreditation;
 - Submit solutions to stakeholders' consultation;
 - Registrars Accreditation Framework and related annexes in light of stakeholders input and release them;
 - Involve resellers, ISPs and technical experts in a pilot test of the R2r software platform and get from them feed back on the "R2r Platform Technical Specifications and Users Manuals";

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2.3.2 Customer focus

Current state. The Hong Kong current state assessment has shown two shortcomings with regard to users:

- Low users involvement, due to lack of mechanisms to provide feedback to and seek the views and opinions of customers and potential customers;
- Unsatisfactory value for money, due to high retail prices, complicated registration process, and little customer support.

Reformed scenario. These two challenges are addressed already at the strategic and governance level in two ways: a) with the new role of the **CAP** in facilitating general customers and specific groups involvement; b) with the inclusion in the performance measurement system of a set of metrics reflecting the users perspective. Moreover, the customer perspective will be considered and in the work for the design and implementation of the Registry-registrars system, as illustrated in the list of key actions in previous sub-paragraph 2.3.1. We recommended, however, to further strengthen customer focus also operationally by setting up a new organisational “marketing and customer service” unit working directly on staff to the CEO and the **Board** to ensure that customers matter are analysed and brought to the attention of top management.

Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario are the following:

- **For the Hong Kong Government:**
 - Include the high-level proposal that HKIRC set up a new organisational “marketing and customer service” unit in the consultation document issued following completion of the Gov3 study
 - Assuming that a consensus is reached on the proposal, include in the final MoU a requirement for HKIRC to plan, consult on and implement the detailed work needed to set up such unit.
- **For HKIRC:**
 - Design the structure, roles and tasks of the new organisational unit;
 - Define the professional profiles needed;
 - Assess current personnel to identify those who can be re-assigned to this unit;
 - Recruit additionally needed personnel.

2.4 Organisational form

Current state. Currently Hong Kong, with its mix of one not for profit organisation (HKIRC) and one for profit (HKDNR), presents a unique organisational solution if compared to the international practices reviewed in our report on the international research. Moreover, the field research on Hong Kong indicates that such solution generates ambiguity and lack of transparency. Finally, as mentioned by some of the interviewed stakeholders, having two company names (HKIRC and HKDNR) makes it very confusing for the general public and hinders a clear communication and marketing strategy.

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Reformed scenario. In our *Best Model Report* we suggest that HKIRC consider transfer of HKDNR functions to HKIRC, with HKIRC and HKDNR merged into one single not-for-profit organisation. This would be justified by the following considerations:

- The more narrowly focussed organisational scope no longer provides a rationale for maintaining two separated organisations;
- Having only one organisation and “brand” represents a more rational solution from the marketing and communication point of view;
- One single not-for-profit organisation also helps increase the transparency and accountability of the ccTLD administration,
- Such an organisational form will better align Hong Kong ccTLD registry to the models identified in the course of the international research phase of this study

Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario are the following:

- **For the Hong Kong Government:**
 - Set out this merger as a potentially useful option in the consultation document issued following completion of the Gov3 study, with a view to seeking stakeholder views on the option while making clear that a) this would be a decision for HKIRC and b) HKIRC which would need to undertake further legal and financial due diligence before it would be in a position to decide the merit of the merger option.
- **For HKIRC:**
 - Launch a brief preparatory legal and financial audit and feasibility study (this should also include a revision of the “M&A” to align to the new MoU and to the changes implied by the merger – Annex C highlights the areas of the M&A which we can already foresee will require change as a result of our recommendations.)
 - In parallel launch an organisation study to design the new organisational model and processes resulting from the merger and from all other changes previously implemented
 - Discuss the option within HKIRC Board to reach consensus and define the timing for such changeIf the decision is to go ahead
 - Implement the merger;
 - Release the new organisational model.

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2.5 Forward orientation

Current state. [

This part of the document is not disclosed. Please refer to endnote (1), (3) and (4).

]

Reformed scenario. HKIRC devotes ring-fenced resources to reviewing emerging technical and market developments, but focused narrowly on the implications of such developments for domain name registration. Given that our study is recommending strategic option B - calling for a narrower focus on ccTLD administration – we recommend that an explicit decision should be taken by HKIRC, the Hong Kong Government and other stakeholders in the Hong Kong Internet community that HKIRC should not be expected to take the lead on all Internet-related policy issues. Rather, it should focus on issues which bear significantly on the core business of domain name registration, and offer advice on wider issues, specifically from the perspective of their implications if any for domain name registration. Therefore, our recommendations are that:

- HKIRC should establish a dedicated resource with the capacity to follow developments, to scrutinize implications and to prepare decisions on issues with strong relevance to its core business.
- HKIRC needs an explicit decision-making process to help assess which of the many potential “future issues” require significant HKIRC engagement.
-

Actions to fill gap. The key actions needed to fill the gap between the current state and the reformed scenario are the following:

- **For the Hong Kong Government:**
 - Ongoing consultation with stakeholders on Internet policy issues via the Digital 21 process;
- **For HKIRC:**
 - Establish a new R&D post, with the explicit remit of keeping in touch with market and technological developments, and with domestic and international debates on these
 - Agree with OGCIO a protocol for determining when it is sensible for HKIRC to take a leading role in monitoring such new developments, and when others in the Hong Kong Internet community are better placed to do so (along the lines of the decision model outlined in Deliverable 4).

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3. IMPLEMENTATION PLAN

3.1 Premise

Chapter 2 above has done one simple exercise for all the relevant dimensions:

1. Summarised the current state ('as is');
2. Illustrated how it would differ if the ideal model is to be achieved ('to be');
3. Derived the actions needed to go from 1) to 2), by both the Government and HKIRC.

As this exercise makes clear, the great majority of the actions would fall to HKIRC, through implementation of what we call in this report the "**Hong Kong Registry Change Project**" (henceforth referred to as simply the Project). The illustrative planning which Gov3 has undertaken (not included in this report) suggests that - if the HKIRC Board decides that it wishes to sign the new proposed MoU with the Government - then implementation of the Project should be possible within an eight month period. Certainly, all the business changes should be possible to implement in this time. Some of the institutional changes – for example, ones that require changes to the Memorandum and Articles of HKIRC which in turn require a vote by Members at an Annual or Extraordinary General Meeting – may take a longer timescale to implement fully, but again we believe that all the detailed planning should have been completed within the eight month period.

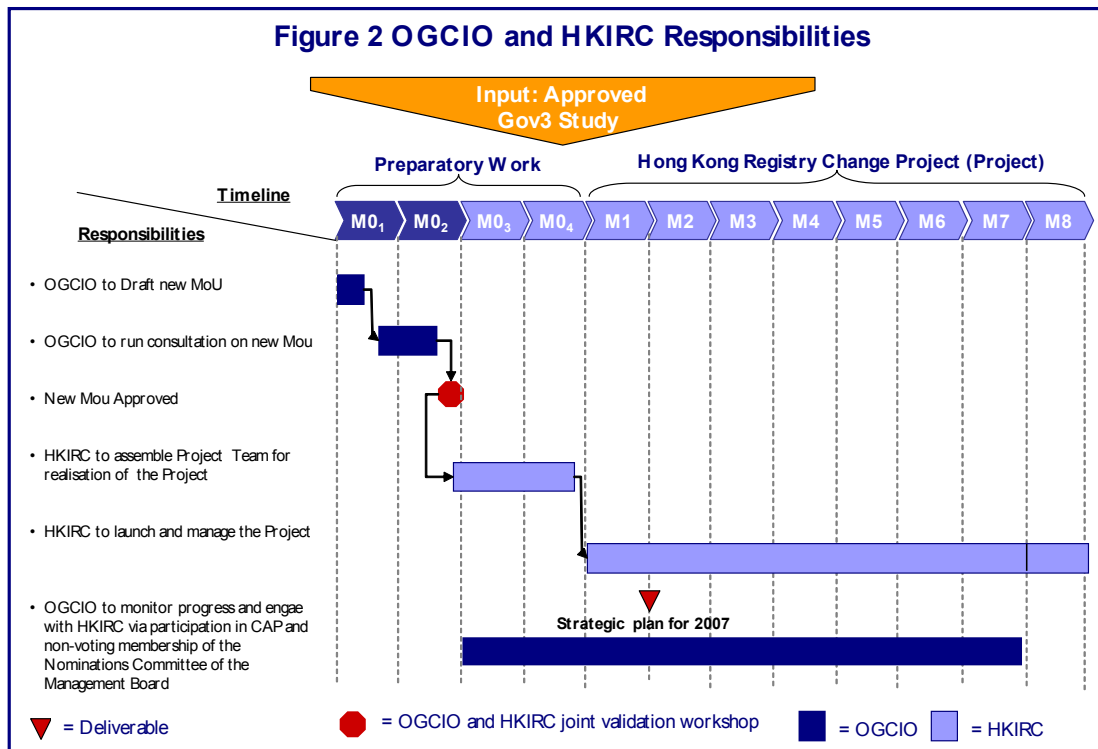
However, this Gov3 study has been commissioned by the OGCIO. Accordingly, our report and implementation recommendations are intended for OGCIO and should not be seen in any way as substituting the business planning that HKIRC will have to autonomously elaborate and follow to respond to the conditions of the new MoU. HKIRC will have to develop its own implementation plan, which is out of scope of this assignment.

3.2 High level timetable, and division of roles between OGCIO and HKIRC

While the majority of actions will fall to HKIRC, once the present study is completed and approved there will remain still some crucial work that pertains to OGCIO, before HKIRC will be able to develop and launch its own implementation plan.

Figure 2 below provides a synthetic picture of the division of responsibilities between OGCIO and HKIRC, and how the timetable for OGCIO tasks fits around the "**Hong Kong Registry Change Project**" described above.

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As it can be seen, the preparatory work could last a minimum of four months but possibly more depending on the time it will take to HKIRC to actually start implementing the changes (for this reason the months are indicated as M0₁, M0₂, M0₃, and M0_{4-n} to convey the idea that it can be only the fourth month or more). Once such work is completed and the **Project** launched, our estimation is that the proposed business changes can be implemented within 8 months, perhaps with some of the institutional reforms taking longer.

The starting input for this preparatory work will be the deliverables of the current Gov3 study in their final and approved version. Starting from this input, the first three months of preparatory work fall under the responsibility of OGCIO.

After elaborating a first official draft of the new MoU using the proposal presented as Annex A to this report, we recommend that OGCIO should consult the HKIRC board on that draft. The aim of this private consultation would be to identify areas where the Board might like to see changes to the draft MoU. Taking these into account, OGCIO would then run in collaboration with HKIRC a public stakeholder consultation process on the revised draft of the new MoU as well as on other main elements of the new proposed model we presented in deliverable four. Indeed it is the responsibility of OGCIO to prepare a consultation document including the new MoU and all those issues that in the previous chapter we listed as actions for OGCIO.

We estimate that the preparatory phase - the two OGCIO run consultation processes (first just with HKIRC, then with wider stakeholders) - should take three months. This

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phase would end with a joint validation workshop between OGCI and the HKIRC Board, to review feedback on the MOU made by stakeholders in the consultation, and to seek to establish a consensus on a revised draft which takes these into account.

After this, the new MoU would be signed and responsibility passes largely on to HKIRC that will have to prepare for the launch of the project by :

- Developing its own implementation plan
- Assembling the multi-disciplinary **Project Team** charged with enacting the implementation plan;

Once this is done, then HKIRC should subsequently launch and manage the **Project**.

With respect to the **Project** it is worth pointing out that, while HKIRC will plan it and implement it autonomously, **it is extremely important that OGCI should require HKIRC at an early stage in the Project to produce a strategic plan for the year 2007**. This plan is indicated as a milestone in Figure 2, coming two months after the start of the Project by HKIRC. The timing of this milestone would be set out in the revised Memorandum of Understanding (see Annex A)³. It would be in this Strategic Plan that HKIRC would set out its own implementation plans for introducing the changes recommended from our study and embedded in the new MoU.

³ The project plan at Figure 2 does not have dates against it, because the start point is not yet clear. However, our planning assumption is that internal discussions on our reports within OGCI will be complete by the end of October 2006, and that Month 0 will therefore start on 1 November. Hence the new MoU would be signed in early February 2007, with HKIRC's strategic plan for 2007 published in March/April 2007. This will be one quarter into the organisation's financial reporting year, so we would recommend that this first Strategic Plan cover only the remaining nine months of the year (a period which we believe will be sufficient to manage implementation of all the transition planning required by the new MoU. The subsequent, updated strategic plans could then be published on an annual basis aligned with HKIRC's financial reporting period.

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ANNEX A NEW MoU: DRAFT PROPOSAL

Memorandum of Understanding for the Management and Administration of Internet Domain Names in Hong Kong

[

Pages 24 - 30 of the document are not disclosed. Please refer to endnotes (2) and (4).

]

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ANNEX B: ANALYSIS OF AREAS WHERE HKIRCS'S MEMORANDUM AND ARTICLES OF ASSOCIATION WILL NEED UPDATING

Memorandum of Association

[

Pages 31 - 32 of the document are not disclosed. Please refer to endnotes (2) and (4).

]

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Endnotes

Certain parts of this document are not disclosed since they contain commercially sensitive information and are related to one or more of the following reasons:

(1) Legal proceedings

Information whose disclosure would harm or prejudice the conduct or impartial adjudication of legal proceedings or any proceedings conducted or likely to be conducted by a tribunal or inquiry, whether or not such inquiry is public or the disclosure of the information has been or may be considered in any such proceedings.

(2) Management and operation of the public service

Information whose disclosure would harm or prejudice negotiations, commercial or contractual activities, or the awarding of discretionary grants and ex-gratia payments by a department.

(3) Third party information

Information held for, or provided by, a third party under an explicit or implicit understanding that it would not be further disclosed.

(4) Business affairs

Information including commercial, financial, scientific or technical confidences, trade secrets or intellectual property whose disclosure would harm the competitive or financial position of any person.