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Mr Maemura

## **Review of Member Fee Structure**

### **1 Introduction**

Thank you for the opportunity to work with the EC to review APNIC's member fee structure.

In accordance with our proposal, KPMG has now completed Part A – Initial Scoping and Analysis. This has included research and analysis which was presented and discussed at the meeting with the EC in Singapore on 9 July.

The purpose of Part A was to identify and understand the issues regarding the member fee structure. Our analysis included consideration of the:

- findings of the **2007 of the Member's Survey** commissioned and accepted by the EC;
- **financial performance of APNIC** including the impact of the foreign currency movements, and the revenue and expense profile of APNIC over the period 2001-2006; and
- **comparative analysis** of other RIRs.

Our attendance at the EC meeting in Singapore on 9 July has provided us with a first hand perspective of the issues in respect of the member fee structure, and the key criteria to be used in evaluating any alternative fee structures.

### **2 Conclusions of the Singapore retreat meeting**

The meeting in Singapore provided an opportunity for thorough consideration of the issues in relation to the member fee structure. KPMG was able to report its interim findings and limited early conclusions, while members of the EC also had the opportunity to present their own perspectives, firstly in response to a set of questions provided by KPMG, and then in general discussion.

These discussions served to emphasise that the fee structure is a complex issue which has been discussed within APNIC for some time, and to which no individual has a solution. Any long

term solution will take some time to properly resolve, after careful consideration and balancing the interests of the APNIC membership. It is clear that more work is needed before this can be done.

However, it was also noted in Singapore that there is a need to make some immediate changes to the fee structure to ensure the stability and sustainability of APNIC as it continues to serve the needs of its members.

KPMG's analysis clearly shows that the impact of the foreign currency movements, and the general impacts of movements in the Consumer Price Index (as a proxy for inflation), represent risks to APNIC which must be addressed. It is also clear that these factors have resulted in a significant reduction in the real costs of APNIC membership, and that an adjustment in fees should be seen as a response to an erosion in income, and not as a fee increase resulting from escalating costs.

### **3 Longer term changes to the Member Fee Structure**

After a longer period of discussion and consideration, the EC will need to come to a position on the long-term member fee structure for APNIC, which ensures sustainability while protecting the principles of fairness and equity across APNIC's membership.

At the meeting in Singapore a range of fundamental member fee structure considerations have been brought forward by members of the EC including:

- The impact of the depletion of IPv4 resources;
- The service requirements for IPv6 address allocation;
- The potential of a transaction-based service model and member fee structure;
- The EC's capability to steer APNIC's priorities for activities;
- The perceived lack of transparency of the operations of NIRs;
- The current per-address fees of NIR / Confederation members; and
- The perceived competitive interests of NIR / Confederation members.

The short-term fee increase (outlined in Section 4 below), if approved, will provide the EC with the time to consider these fundamental issues in the development of a longer term membership fee structure which meets the needs of all levels of membership.

## 4 Short term changes to the Member Fee Structure

### 4.1 Fee Structure Proposal

As discussed in Singapore, we believe it is financially prudent for the EC to take some short term action to address the decline in APNIC's financial results. This action should take the form of adjustments to the current structure which can be easily understood in terms of their effect on APNIC and the members.

The key components of the immediate fee structure proposal which were discussed at the meeting in Singapore include:

- **Fees to be levied in \$AUD** to help address the impact of the exchange rate variations. This will also help to provide more certainty in APNIC's financial position given that the majority of APNIC expenses are paid in \$AUD.
- An **overall percentage increase** across all levels of membership;
- This change will take **effect from January 1 2008**.

In establishing the specific changes, we would propose that these components be set at levels which would ensure that the approved budget for 2007 would produce a balanced result. Specifically, the exchange rate for establishment of AUD fees should be 0.7889 (the expected 2007 rate), and the overall increase in fees should be around 7% (in order to produce a balanced budget on the basis of approved expenses for 2007).

We believe that this is financially prudent, and not to take this course of action presents risk to APNIC's financial position and its ability to continue to provide services at the level expected in the approved 2007 budget. We do recognise however that an increase of this order will need to be explained and justified to the members and we have made some comments in Section 4.2 below.

### 4.2 Justification for immediate changes in the fee structure

We believe there is a justification for an immediate increase in the members' fees, and not to do so would expose APNIC to financial risk. The following provides an overview of the key considerations which support the decision that EC reached to increase APNIC's membership fees:

- **Exchange rate variations** - The strong increase in the Australian Dollar (\$AUD) compared to the US Dollar (USD) has detrimentally impacted on APNIC's financial performance. The 2007 APNIC budget was struck at the rate of .78, and the exchange rate has been hovering around .85 and this represents a 10% deterioration in this year alone. Furthermore since 2000, when the rate was around 0.5479, the real deterioration in APNIC's AUD revenues has been over 40%.

- **No increase in fees since 1996** - The membership fees have not been increased since 1996. There has been no adjustment for inflation over this period and this has resulted in a narrowing gap between revenues and expenses to the point where APNIC will incur a deficit for the first time in 2007. A percentage increase in the order of 7% represents a very small proportion of the losses due to inflation, but provides the opportunity to balance the endorsed budget for 2007.
- **Member expectations** - The demand for greater and better services by APNIC members. While members have generally been very positive about the services provided by APNIC, certain improvements and enhancements are expected. However, the fact that APNIC faces a declining revenue base, when taking into account exchange rate fluctuations and inflation, limits the opportunity for APNIC's management to address all key service improvement requests proposed by its members.

We believe that the decision to implement a percentage increase in member fees in the short term, is a prudent way to manage risk.

## 5 Conclusion

We look forward to the opportunity to continue to work with APNIC, and seek direction from the EC to move forward to Part B of the review to identify and evaluate a number of fee structure options for consideration by the EC.

Yours sincerely



Michael Hiller  
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