



# Is your IXP Membership a Business Risk?



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LINX 125



“Should I be concerned  
that joining a membership  
IXP like LINX creates a  
business risk that I wouldn’t  
get if I used for-profit  
commercial IXPs instead?”

Unattributed account contact  
LINX member company



## Unpacking The Question

- What do we really mean by membership?
- What risks accrue specifically to membership?
- What risks accrue to other features of an IXP operator, that may or may not be associated with membership?





## Looking at Different Kinds of Risk

- Liability for the actions or debts of the IXP
- Governance risk
- Operational risk
- Financial stability
- Reputational risk
  - Brand risk
  - Community reputation



“If the IXP does something  
wrong – or if it goes bust –  
am I liable?”

Not an actual quote,  
but it's still your first concern –  
or it should be



## Liability and Independence

- Does the IXP have independent legal personality?
- Am I responsible for the actions or debts of the IXP?





## The Key Distinction

- The IXP operator is a properly incorporated business with independent legal personality

**versus**

- A group of network operators cooperating informally; or
- A personal hobby project





## The Importance of Limited Liability

- A **UK Limited Company provides robust protection** whether for members or shareholders.
  - In companies limited by shares the shareholders are liable for unpaid share capital, but no more
  - In companies limited by guarantee the members are liable for the guarantee, but no more
- A partnership or consortium could have unlimited liability
  - No known examples in IXPs, but important to distinguish; some other types of participatory business ventures are structured this way, and have very different risks.
- An informal cooperation is just you acting together with others.
  - **This has unlimited liability!**
- A personal hobby project is just that person and what you've asked them to do
  - **They certainly have unlimited liability, and you could too**
- In other countries there are a variety of corporate forms with special rules.
  - If you're invited to join one you don't recognise, make sure you understand whether it provides a fully independent legal personality on a "limited liability" basis







## Critical Check Point

- **Check:**
  - Is the IXP a properly incorporated company not a personal hobby project?
  - Is the corporate form one that provides a robust limited liability shield?
    - If it is incorporated under a law that is foreign to me, do I understand and have confidence in the legal structure?
- LINX (London Internet Exchange Limited)
  - Is incorporated in the UK as a company limited by guarantee
  - This has independent legal personality
  - The guarantee is £1 from each member
  - This provides robust protection for members so they are not legally responsible for the actions or debts of the company.





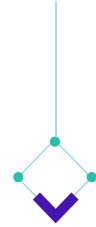
## Membership != Control

- The management of a UK company limited by guarantee or by shares is vested in its Board of Directors.
  - Members do not have decision-making responsibility
  - Instead, members appoint a Board of Directors to take on this responsibility.
  - The Board of Directors is the “controlling mind” of the company
- So what do members get?
  - The right to vote on appointments
  - Often, compared with commercial customers of a for-profit company,
    - Enhanced transparency
    - Closer consultation
    - Influence over business strategy and vision
  - Promotion of the members' collective interest may be enshrined in the company's constitution (Mem & Arts) as an alternative objective to enhancing shareholder value.



“Could I be in trouble with  
the regulator”?

See me afterwards



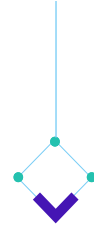
## Regulatory Risk

- So long as the IXP operator is a legally distinct entity, they will be responsible for their own regulatory compliance not you...
- ...but you will remain responsible for your own regulatory obligations.
  - Generally speaking (at least in UK/EU/USA) regulators see IXP participation as pro-competitive
  - There is increasing regulatory scrutiny of security practices by network operators, so you will want to be satisfied your IXP treats your network traffic appropriately – and you will want to be sure you don't place excessive reliance on any one infrastructure, including one IXP
- IXPs do vary in their awareness and responsiveness to regulation
  - Network operators have historically had greater awareness of and contact with the regulator than datacenters
  - Some membership IXPs have dedicated regulatory compliance officers; many smaller ones though appear to “fly under the radar”
- IXP specific regulation differs from network operator regulation



“OK, so I’m not directly liable, but can I trust a membership IXP to be properly run? Isn’t a commercial company more professional?”

*Nobody really says this to my face any more*



## Governance Risk

- “Corporate governance” is the name we give to the set of systems, processes and controls used to ensure a business is run responsibly, professionally and effectively managed and that risks are controlled.
- Key aspects of good corporate governance include
  - Avoidance of concentration of authority
  - Clarity in assignment of authority, and responsibility for decisions
  - Transparency in decision-making and reasoning
  - Oversight and scrutiny
- Good corporate governance is a risk mitigator





## Corporate Governance in Practice

- Nothing about corporate governance is *inherently* more likely to be better or worse done between a membership basis and a for-profit commercial basis.
  - It can be harder to implement effective corporate governance if the team is too small
  - Members could have more visibility of corporate governance of a membership company
- How does corporate governance protect you, the member?
  - Corporate governance is designed to protect the business, not the customer
  - So, it is protecting you from the consequence of the business acting unprofessionally or unreliably, not from other risks
- Identification of the membership's interests as the object of the company *could* better align the processes of corporate governance with your interests than in a for-profit company.



“Well the corporate stuff  
might be well run, but  
that’s no help if the IXP  
platform goes down”

I know this is what you were thinking





## Operational Risk

- The risk that the day-to-day operations (here: the IXP platform) fails or underperforms.
- Driven by:
  - Engineering skills & competence
  - Resourcing & capacity (human, financial, infrastructure)
  - Operational processes & controls
  - Technical systems
  - Management of external dependencies
- Corporate governance aims to ensure
  - The organisation has the right skills and resources
  - The leadership is competent, and the systems are credible and tested
- Membership transparency gives members direct visibility
  - This is an additional risk mitigant that may advantage membership over commercial IXPs





## Mitigating Operational Risk

- **Check:**
  - Leadership technical capability
  - Operational team bench strength
  - Does the IXP have a 24x7 NOC?
  - Does the IXP have the capability to refresh its network from its own resources?
    - Would it rely on contractors?
    - Does it have the financial capacity to renew its network?
  - Does the IXP have the capability to refresh its personnel from its own resources?
    - Is there a “key man” risk?
    - Does it depend on personal “hobbyist” dedication rather than professional employees?
    - Is the team member replacement self-sustaining?



“Or you could just go  
bust?”

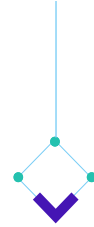
Not funny



## Financial Stability

- Financial stability depends more on enterprise size, access to cash (reserves, available credit), and management than on whether an IXP is membership-based or commercial.
- Size of the enterprise is likely to have more influence than membership structure (with both advantages and disadvantages to being large or small).
- For-profit enterprises — especially large ones — may be exposed to a wider and more complex range of risks.





## Key Financial Stability Risks

- Very small IXPs may be more fragile to shocks unexpected events and temporary economic swings
  - Enterprises with strong reserves, or credit and access to risk capital, may be more robust
- Large datacentre or network operator business' finances will be driven by factors for which the IXP is at best irrelevant, and at worst a loss-leader that is easily chopped when times are tough.
- **Check:**
  - Does my IXP operator have a strong balance sheet and a good trading history?
  - Are the IXP operations I rely on central to my IXP operator's financial success?



“And if you do go bust, will  
the membership expect  
me to step in to clean up  
the mess?”

*It has been known...*



## Reputational Risks

- Nothing *legally obliges* an IXP member to step in to resolve a crisis or failure
  - Preserving continuity is an act of community self-interest, not a legal obligation of membership
  - See previous section on liability
- If an IXP fails due to lack of demand, the impact is minimal
- If an IXP fails due to governance or operational mismanagement, the community may look to major network operators to lead a resolution
  - This creates reputational pressure, even without legal obligation
  - It derives from the peering community's need for the IXP to survive, not the corporate structure
    - This applies equally to membership and commercial IXPs
  - Membership IXP governance transparency may help partially mitigate such crises
    - Some crises may be pre-empted, others foreshadowed





## Mitigating Residual Reputational Risk

- Good corporate governance and a strong balance sheet remain the best protections
- **Check:**
  - Does the company have strong transparency in corporate governance?
  - Do the company's audited accounts and trading history show financial resilience?
  - Does the company have good regular turnover in Board leadership, without rancour or political in-fighting, or signs of internal disputes about hidden problems?





“Should I be worried what  
you’re going to do next?”

Smile and be happy



## Strategic Risk

- Strategic risk refers to the possibility of strategic misalignment between the IXP operator and the IXP participant.
- Membership IXPs
  - model and constitution aims to keep the operator's strategy aligned with participants' interests, but
  - all organisations are prone to strategic drift if not actively checked, so
  - member participation and engagement maximise risk mitigation
- Commercial IXPs that are small components of much larger businesses are especially prone to strategic misalignment:
  - Datacentre business models frequently feature 'lock-in' pricing
  - Large incumbent access providers may view both content networks and smaller access providers primarily as their access customers, making them an uncertain choice of partner for the neutral provision of IXP services.
  - No company loves its loss-making business units, even if they're deliberate loss-leaders



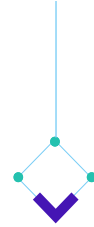


## Mitigating Strategic Risk

- **Check:**
  - Does my IXP operators' business success depend
    - more on delivering great IXP services that I will or might use, or
    - mostly on other business areas that are irrelevant to me?
  - Does the IXP have a solid history of financial success, and did that result in a track record of internal reinvestment and continuous improvement?
  - Does using this IXP increase or reduce my exposure to lock-in for other services?



## Conclusions



## Conclusions & Closing Thoughts

- The membership model never directly adds risk. It is often neutral, and sometimes acts as a risk mitigator
  - Some membership IXPs are very small, and that brings its own risks, but then non-member IXPs (or becoming a non-member 'customer') wouldn't address help
- Positive factors for membership IXPs:
  - Generally greater transparency on corporate governance and business strategy
  - Little risk of strategic misalignment
    - Usually tightly focussed on IXP services and closely related services
    - Non-profit distributing means success leads to reinvestment and improvement
- Getting the best from your IXP membership
  - Transparency only matters if you're paying attention, so participate in member events, give feedback and pay close attention to Board elections and candidates

