Fee-blocks CC01 and CC02

FCA/FOS	Tariff base	Annual income
FCA/FOS	Validation date	for your financial year ended in 2016

We need fees and levies information to calculate the amounts firms pay to the Financial Conduct Authority (FCA) Money Advice Service (MAS) and the Financial Ombudsman Service (FOS). Consumer credit is not covered by the FSCS.

This guidance sheet provides details on the data to include within the firm's fee tariff data form. We have given links to relevant parts of our Handbook to help you complete the form correctly. This sheet covers the following fee-blocks:

- **FCA Fee-block CC01**
- **FOS industry block IO19**
  (Limited permission)

- **FCA Fee-block CC02**
- **FOS industry block IO20**
  (Full authorisation)

For more information on these fee blocks, including which regulated activities permissions place firms into them, please refer to the Fees manual (FEES)

Fees tariff bases are subject to change during the year because we always consult on our fee rules before making any changes. So before completing the forms, you should also refer to the latest publications on fees on our website. These will explain any proposed changes to the tariff data you must report, and the expected date when we will implement any changes.

FCA fee –block: CC01 and CC02

Tariff base - annual consumer credit income for your financial year ended in 2016

For FCA 2017/18 periodic fee calculation purposes, we will obtain this data from our own regulatory systems. The total annual consumer credit income is obtained through the data received by the FCA through the GABRIEL return from items 6 or 12 on reporting page CCR002 for full permission and CCR007 for limited permission.

The Mortgage Credit Directive will take firms dealing with second charge and buy-to-let mortgages out of consumer credit regulation from March 2016. These will no longer be regulated as consumer credit activities so any income relating to them **should not** be reported under consumer credit as from the 2016/17 invoice period. The changes are:

- **Second charge mortgages**: second-charge lending and second-charge broking will be brought into our existing mortgage regime. From 2016/17 onwards, second-charge lending data should therefore be reported for fee block A2 (mortgage lending) and second charge broking data for fee block A18 (mortgage advisers and arrangers).
- **Buy-to-let (BTL)**: BTL broking is currently a consumer credit activity but BTL lending is not regulated. Neither will be regulated by us after March 2016 so no BTL data should be reported in the future.
- **Consumer buy-to-let (CBTL)**: CBTL is a specialised form of BTL activity. CBTL broking is regulated by us as consumer credit but CBTL lending is not regulated. After March 2016, all activities relating to CBTL will be regulated by us under regulations issued by HM Treasury. From 2016/17, CBTL lending data should be reported for fee-block G20 (CBTL lenders) and CBTL broking data for fee-block G21 (CBTL advisers and arrangers).

All the consumer credit fee-blocks use regulated credit-related income as their tariff base, and all use the same definition.

The definition is set out in FEES 4 Annex 11B. Guidance on applying the definition is in FEES 4 Annex 13 G

You should report all income recognised in your accounts from regulated consumer credit activities for the reporting year. This income would include, but is not limited to:

- commissions received from lenders / finance companies
- interest received on loans
- fees
- consumer hire income
- other related income (for example administration charges, overriders, profit shares etc.)

You should report income in full and should not deduct operating costs or business expenses. Where you have made a business decision to waive or discount charges, you should report the fair value of these charges, i.e. the amount you would otherwise have received.

Note that:

- Lenders should **not include** the repayment of principal – only interest received (or receivable) and other charges
- Credit brokers should **not include** the value of the goods or services sold,

or of the loans brokered – only include credit-related income (e.g. finance commissions).

Firms should read the detailed definitions and guidance carefully. From our experience of dealing with queries from firms, we have set out below the issues they most commonly raise with us.

Example 1 (credit broking)

Your business sold goods to a consumer for £700.00 in your financial year. £500.00 of this was received via a finance company. The finance company paid you commission of £35.00. You received no other fees or commissions for the credit broking. You should report £35.00 as income.

Example 2 (lending)

You hold loans of £100,000 under regulated credit agreements. During the year you recognised £150.00 of interest income in your accounts, and £20.00 of other fees and charges relating to the agreements. You should report £170.00.

Example 3 (interest-free loans repayable in 12 monthly instalments)

A retailer arranges interest-free loans for consumer purchases. The consumers pay no interest or other charges and the loans are repaid in full in no more than 12 monthly instalments over one year.

*You are a retailer who arranges loans on these terms for your customers as a broker and you receive commission from the finance company for making the introductions. **Or** you are a lender and the retailers pay you a subsidy to provide interest-free credit to their customers.*

Interest-free loans repaid in full in up to 12 monthly instalments with no other charges are not regulated credit agreements and so neither the lender nor the retailer should report their income to us.

Example 4 (other interest-free loans)

You are a lender and you issue interest-free loans for consumer purchases. You receive no interest or other income from the consumers. However, the loans are repaid over a longer period than 12 months and you do receive income from your credit brokers, the retailers: in the last financial year you issued new loans of £300.00, in respect of consumer purchases worth £300.00, but you only paid £270.00 to the retailers. You should report your income of £30.00, which is the subsidy you received from the retailers for providing interest-free credit to their customers.

***Or** you are the retailer who arranged these loans for your customer as a broker. In the above example you have no income to report, but we still have to recover our costs in regulating your broking activities. Otherwise your costs will be paid by other firms. In these circumstances, you would use the proxy described below* *to record the activity.*

Example 5 (consumer hire as owner)

You lease vehicles under regulated consumer hire agreements. During your last financial year you received £1,000,000 of lease payments under these agreements. You should report income of £1,000,000.

FAIR VALUE

You should calculate a 'fair value' income where you have decided to forego your normal charges for business reasons – for example, as a promotion. This is because we are using income as a measure of the activity we are regulating. If you do not report any income, other firms will be paying for your regulation through higher fee-rates.

Example 1 (flexible loan, partially interest-free)

You are a lender and you issue a loan of £2,400 to a consumer. It is repayable within two years but the first twelve instalments are for £100 and no interest will be charged if the balance of £1,200 is repaid within twelve months. Otherwise, interest is charged at 10% on the balance – ie twelve instalments of £110, giving you a consumer credit income of £120 in the second year. (Note: if the loan had been repayable in twelve instalments of £200, it would have been exempt from regulation). To measure the activity, we would require you to apply the second year's interest rate to the first year's loan. For example:

- *The customer repays the loan over two years. You would report a fair value income of £120 in the first year and an actual income of £120 in the second year, making a total income over two years of £240.*

- *The customer repays the full loan within a year so makes no interest payments. You would report a fair value income of £240.*

PROXY MEASURE FOR FIRMS RECEIVING NO INCOME FOR CREDIT RELATED REGULATED ACTIVITY

You should only use the proxy measure when you receive no income. If you do receive consumer credit income, you should report the actual consumer credit income.

If you do not receive any income *from a transaction or type of transaction, you are required to report using the* ***proxy measure****. This is defined as a percentage of the value of the loans brokered, loans made, or goods for consumer hire. The percentage is the Bank of England base rate plus 5%, which at the time of writing (December 2016) would be (0.25% + 5%) = 5.25%.*

Using the proxy measure - example 1 (credit broking)

You refer customers to a lender, who provides them with credit of £100,000. The lender does not pay you a commission. You should report 5.25% of £100,000 as your proxy income, i.e. £5,500.

Using the proxy measure – example 2 (credit broking with deposit)

You sell £1,000,000 worth of cars on finance terms, and receive no commission from the finance providers. The customers pay deposits. The total value of the deposits is £100,000, so the credit provided is £900,000. You should report 5.25% of £900,000 as your proxy income, i.e. £49,500.

Using the proxy measure – example 4 (interest free lenders)

You provide a service and allow customers to pay in instalments for no charge. You act as the lender. The repayment period is 24 months, so it is not subject to the 12-month instalment exemption. You receive payments of £100,000 during the year, which entirely represents repayment of principal, with no interest or charges. You should report 5.25 % of £100,000 as your proxy income, i.e. £5,500.

Using the proxy measure – example 5 (brokers with two transaction types)

You broker credit worth £10 million. On £3m of this, you receive commission from the lender, totalling £180,000. On the remaining £7m you receive no commission (and you may even pay the lender a subsidy). You should report your actual income from commission ***plus*** *5.25% of the £7m, i.e. £180,000 + £385,000 = £565,000.*

- **FOS industry block I019 – (Limited Permissions)**
- **FOS industry block I020 – (Full permissions)**

You do not need to supply tariff data for Industry block I019/I020 as the FOS levy is currently a flat fee.