

## How we define ‘consumer credit income’

**You need to know your ‘consumer credit income’ when applying for authorisation or a variation of permission, or when submitting the data we use to calculate your annual fee.**

We use a firm’s consumer credit income to measure the scale of its consumer credit activity, so that its fees reflect the size of its business.

The total amount of money we recover through fees is fixed each year, so our priority is to ensure a fair distribution of cost recovery across the industry. If a firm manipulates its reported data to reduce its fees, that doesn’t mean we will receive less money – it just means other firms will have to pay more to pick up the balance.

That’s why we ask for information about revenue, not profit, as this minimises the possibility of different interpretations of our requirements. As long as all firms are reporting on the same basis, fees will be distributed fairly.

Our fees manual sets out the definition of ‘consumer credit income’ for fees purposes:

1. The detailed definition is in FEES 4 Annex 11B of our Handbook.
2. There is further guidance on calculating income in FEES 4 Annex 13 Table 2 of our Handbook.

### Main principles

We discussed the main principles behind the definition in our consultation paper (CP13/14) published in October 2013. These were:

- you should report all regulated credit-related income without deducting operating costs or business expenses
- you should exclude any income which does not come from credit-related activities
- remember that credit-related income includes interest payments but doesn’t include repayments of principal.

We collect our fees on the basis of ‘fee-blocks’ – these are groups of firms that carry out similar regulated activities. We allocate consumer credit firms to fee-block CC1 if they have limited permission or to CC2 if they have full permission. If you’re in CC1 you will report your income through our Gabriel reporting system in your CCR007 report. If you’re in fee block CC2, the CCR002 report will collect this information. If you also have non-credit-related permissions, you’ll be allocated to other fee-blocks as well as CC1 or CC2. It’s important that you know which fee-blocks you’re in, so that you can split your income between the

relevant activities to avoid double-counting and over-paying fees. Read further information about [fee-blocks](#) on our website. You may also find our guide on [How we raise our fees](#) useful.

## **Firms which formerly had interim permission and are also authorised for non-credit-related activities**

Firms with permissions for non- credit-related activities should check their income data to ensure they aren't double-counting any income once they're fully authorised for consumer credit.

For example, a general insurance intermediary in fee-block A.19 might arrange loans for customers who want to spread payment of their insurance premiums. While this firm had interim consumer credit permission, it would have included any arrangement fees in the income reported for A.19 through Part J of the Retail Mediation Activities Return (RMAR). This is because this was, under our Handbook definition (FEES 4 Annex 11A), revenue 'in respect of or in relation to' its insurance intermediation activities. But, once fully authorised for consumer credit, the firm would exclude that income from the RMAR and report it instead in its CCR002 return as credit-related income.

If a firm in this position has already submitted its non-credit-related data in the RMAR, it should inform the Fees Helpline ([fcafees@fca.org.uk](mailto:fcafees@fca.org.uk)) that it needs to adjust its figures. It may be entitled to a rebate on its non-consumer credit fees for the remainder of the year following full authorisation.

## **Calculating and apportioning annual income**

We want reporting to be proportionate. Firms' accounts may not always distinguish consumer credit from other income. In these circumstances, firms should apportion their income on a reasonable estimate of how their business is normally split between regulated and non-regulated activity. For example, you might calculate the average proportion of regulated income from random sampling of invoices over a full year or from a review of all invoices over a set period. You would then apply the percentage to your total annual income. We don't specify how you should make these calculations. However, if we challenge your figures you must be able to provide an objective justification of your estimates, including documentation that shows how the methodology was developed and approved at an appropriate level within the firm.

**Consumer hire activity:** Firms undertaking consumer hire should note that we haven't yet encountered a business model which would allow the separation of any non-credit-related income. Items such as servicing, carriage of goods, repairs etc arise out of the original consumer hire agreement. So all income from the consumer hire agreements that we have seen so far has represented revenue 'in respect of or in relation to' consumer credit.

## **Fair value**

When firms make a business decision not to charge a customer, they should report the 'fair value' price of the charge they would normally have made.

This is to level the playing field between larger firms, which can sometimes afford to waive commission, and smaller firms which have to recover their costs directly. If we did not ask for 'fair value' estimates, smaller firms would be subsidising the costs of regulating larger firms.

The definition of 'fair value' is set out in our Handbook under:

- FEES 4 Annex 11BR 1(c) and

- FEES 4 Annex 13, Table 2, (5) and (6).

## **Proxy measure of annual income for retail firms**

A retail firm is one whose main business is to sell goods or supply services and not making credit or consumer hire agreements or brokering such agreements. The full definition can be found in FEES 4 Annex 11BR 2(a)(i).

Some retail firms may be unable to estimate a fair value price because they never make any charges when they enter into loan or consumer hire agreements or when they arrange loans as credit brokers so that their customers can purchase their goods or services. Nevertheless, they are still undertaking regulated activities which are supervised by us and unless they contribute towards our costs, other firms would be paying their share.

Therefore, we have set out a proxy measure for retail firms who would report no income if they were using the rules set out in FEES 4 Annex 11BR 1(a) to 1(b) and can't estimate a fair value as per FEES 4 Annex 11BR 1(c). The proxy measure is set out at FEES 4 Annex 11BR 2 but, in summary, it is:

The gross loan amount either brokered or entered into or the gross value of all goods under consumer hire arrangements either brokered or entered into, multiplied by 5% plus the Bank of England base rate as it stands on the firm's accounting reference date (currently 0.5%).<sup>1</sup>

Historic Bank of England base rates, currently known as the Official Bank Rate, are available on the Bank of England website. To help you prepare your report, we have set out an illustrative calculation in our guidance in FEES 4 Annex 13 Part 2 (6B).

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<sup>1</sup> Firms must follow the proxy measure definition in FEES 4 Annex 11BR 2 and not rely on the summarised paragraph to ensure the full definition is met.