

Chapter 4

Periodic fees

Definition of annual income for the purposes of calculating fees in fee blocks CC1 and CC2

(1) Annual income definition for credit related regulated activities

"Annual income" is the gross inflow of economic benefits (i.e. cash, receivables and other assets) recognised in the *firm's* accounts during the reporting year in respect of, or in relation to, the provision in the UK of the *regulated activities* specified in FEES 4 Annex 1AR Part 1 as belonging to fee-blocks CC1 or CC2 as applicable.

The figure should be reported without netting off the operating costs or business expenses, but including:

(a) all interest received on loans, brokerages, *commissions*, *fees*, and other related income (for example, administration *charges*, overrides, profit shares etc) due to the *firm* in respect of, or in relation to, the provision in the UK of the *credit-related regulated activities* specified in FEES 4 Annex 1AR Part 1 as belonging to fee-blocks CC1 and CC2 and which the *firm* has not rebated to *clients* or passed on to other authorised firms (for example, where there is a commission chain).

(aa) In the case of *consumer hire agreements*, interest should be calculated as the total revenue over the period of the lease minus depreciation of the asset over the same period. Where depreciation is not recorded in the accounts and a *firm* uses its own internal conventions for calculating depreciation, it must be ready on request to demonstrate that its methodology uses straight-line depreciation or an alternative depreciation method in line with the UK Financial Reporting Standard (FRS 102) or *International Accounting Standards* (IAS). In the absence of internal conventions for calculating depreciation, the assumption should be made that the asset depreciates to zero over the period (or minimum period) of the lease, or (if no period is specified) over a reasonable period.

Plus:

(b) any ongoing *commission* from previous business received by the *firm* during the reporting year.

(ba) any vouchers, reward cards or other benefits staff have received from other *firms* as recompense for making introductions as a *credit broker*.

Plus:

(c) the "fair value" of any goods or services the *firm* provided to *clients*. This is an estimate of the amount the *firm* would otherwise have received for any *regulated activity* under (a) above, but for which it has made a business decision to waive or discount its charges.

Plus:

(d) [deleted]

Or

(e) The figure must be reported using the proxy measure of annual income if the *firm* receives no annual income of the type in 1(a) to (c) and meets the criteria in (2).

(2) Proxy measure of annual income

(a) A *firm* that receives no annual income of the type in 1(a) to (c) must report its annual income using the proxy measure in (b) if:

(i) its main business is to sell goods or supply services, and is not to carry on a credit activity in 2(a)(ii) or 2(a)(iii);

and

(ii) it carries on:

(aa) *credit broking* in relation to *credit agreements*, except for *credit broking* in relation to buy-to-let mortgages; or

(bb) *entering into a regulated credit agreement as lender*;

or

(iii) it carries on:

(aa) *credit broking* in relation to *consumer hire agreements*; or

(bb) *entering into a regulated consumer hire agreement as owner*.

(b) The proxy measure for annual income is calculated:

(i) for activities in 2(a)(ii), by multiplying the gross loan amount under all agreements falling within the activity by the percentage value at (b)(iii);

(ii) for activities in 2(a)(iii), by multiplying the gross value of all goods under all agreements falling within the activity by the percentage value at (b)(iii);

(iii) the percentage value is 5% plus the Bank of England base rate on the final day of the *firm's accounting reference date*.

(iv) any proxy income should be calculated on the basis of the Bank of England base rate in force at the time of submission.

(3) Where the firm's regulated activities are being carried on by an appointed representative of the firm

The *firm's* annual income must include income received by an *appointed representative* carrying a *regulated activity* in a relevant fee block on behalf of the *firm*.

The *appointed representative's* annual income must be calculated in the same way as the *firm's*. However, to avoid double counting, the *appointed representative's* annual income must not include any income also recognised in the *firm's* accounts, including income recognised as a result of a commission sharing arrangement with the *appointed representative*.

Guidance on the interpretation of this definition is presented in Table 2 of FEES 4 Annex 13 G.