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Dear David,

## Consultation – Regulatory fees and levies: policy proposals for 2018/19

The BVRLA welcomes the opportunity to comment on the consultation which sets out the FCA proposed policy changes to the way that FCA fees will be raised from 2018/19. Our response is focussed on Chapter 4 regarding the views on whether and how the FCA might refine the definition of credit-related income to take account of the specific circumstances of consumer hire agreements.

We note that today the FCA uses income as the basis for calculating consumer credit fees and that the definition of consumer credit income requires firms to report repayments of interest and any other financial charges (eg administration charges, default fees, etc) as income only. Firms do not report repayments of principal as credit-related income because that is their own money being returned to them. However, this distinction between interest and principal does not therefore apply in consumer leases and so the FCA definition of income treats all of the payments relating to consumer hire as economic benefits arising out of the regulated activity.

A sample example is provided below which shows the distortionary effect this definition has:

|   | PCH (Hire Agreement) | PCP (Credit Agreement) |
|---|----------------------|------------------------|
| Vat Funded Y/N  | N                    | Y                      |
| Purchase Price  | 15,000               | 18,000                 |
| Residual Value  | 5,000                | 6,000                  |
| Interest Rate   | 5%                   | 5%                     |
| Term (Yrs)  | 3                    | 3                      |
| Depn  | 10,000               | 12,000                 |
| Interest  | 1,500                | 1,800                  |
| Monthly Rental  | 383.33               | 383.33                 |
| Yearly Rental Amount  | 4,600                | 4,600                  |
| Yearly Capital Repayment  | 3,333                | 4,000                  |
| Yearly Interest Income  | 500                  | 600                    |
| Yearly Vat on Rentals   | 767                  | -                      |
| FCA Annual Income Reported  | 4,600                | 600                    |
| Impact of 10,000 PCP versus PCH Contracts on Annual Income Reported | 46,000,000           | 6,000,000              |
| FCA Variable Fee (£1.30 per £1000 of Income)                        | 59,800               | 7,800                  |

### British Vehicle Rental and Leasing Association

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The example above shows that the fees calculated from Personal Contract Hire (PCH) are considerably more than the Personal Contract Purchase (PCP) example when the return on the product is approximately the same for leasing companies. In addition, FCA view PCH as a lower risk product because if a firm is only providing personal contract hire products they are only required to have FCA limited permission.

We therefore suggest that the FCA investigate further the proposal to use depreciation as equivalent to repayment of principal for personal contract hire products which are operating leases.

For personal contract purchase or finance lease products we are supportive of the proposal that the FCA should specify a mandatory proxy for interest in the definition of income and apply it to the total rental income as equivalent to principal.

We trust our comments add value to your discussions in this area. We would be happy to discuss this in more detail or provide sample data to show how this would impact our members in terms of fees paid to you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jay Parmar', written in a cursive style.

**Jay Parmar**

Director of Policy & Membership

***Bona-fides BVRLA, the industry and its members***

- Established in 1967, the British Vehicle Rental and Leasing Association is the UK trade body for companies engaged in the rental and leasing of cars and commercial vehicles. Its members operate a combined fleet of 4.71 million cars, vans and trucks.
- BVRLA members buy nearly 50% of all new vehicles sold in the UK, an estimated 1 million vehicles (including 308,000 UK-made vehicles) per annum.
- Collectively, members of the BVRLA support around 317,000 jobs and contribute over £24.9 billion to the UK economy each year.
- Through its members and their customers, the BVRLA represents the interests of over 2 million business car drivers and 10 million people per year who choose to rent a vehicle.
- As well as informing the Government and policy makers on issues affecting the sector, the BVRLA regulates the industry through a mandatory code of conduct, helping its members deliver safe, sustainable and affordable road transport to millions of consumers and businesses. For more information, please visit [www.bvrla.co.uk](http://www.bvrla.co.uk).