Covering the Regulatory Costs in a Digital World

(aka Financial Stability for the Broadcast Regulator)

April, 2010

Delivered to

Commonwealth Broadcasting Association Conference

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- Experts in the convergence of traditional culture with digital technology
- Broadcasting regulation experts, including developing new regulatory regimes for Canada and globally (most recently for the Broadcasting Commission of Jamaica)
- Data gathering and industry profiles across all cultural sectors (interactive media, film and television production, digital publishing, music)
- Economic impact assessments of the effects of support programs
- New business models for the digital industries

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Financing Regulators

- Multiple funding models used globally resulting in a number of inequities

- Best practices model for regulator financial sustainability includes equitable contribution from the all principal stakeholder groups: primarily distributors and broadcasters (both terrestrial and specialty/subscription services)

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Balancing Inequities

- Different categories of licensees due to historical contribution and licensing regimes (if any) in place at time of licensing (e.g. those who were licensed later generally have higher mandated contributions)
- Distributors and broadcasters generally contribute differently, with distributors often paying more than broadcasters as their revenues are significantly higher
- Many stakeholders don't provide annual financial reports to the regulator and even where there is reporting, don't provide accurate data on a standardized accounting (e.g. GAAP reporting) basis

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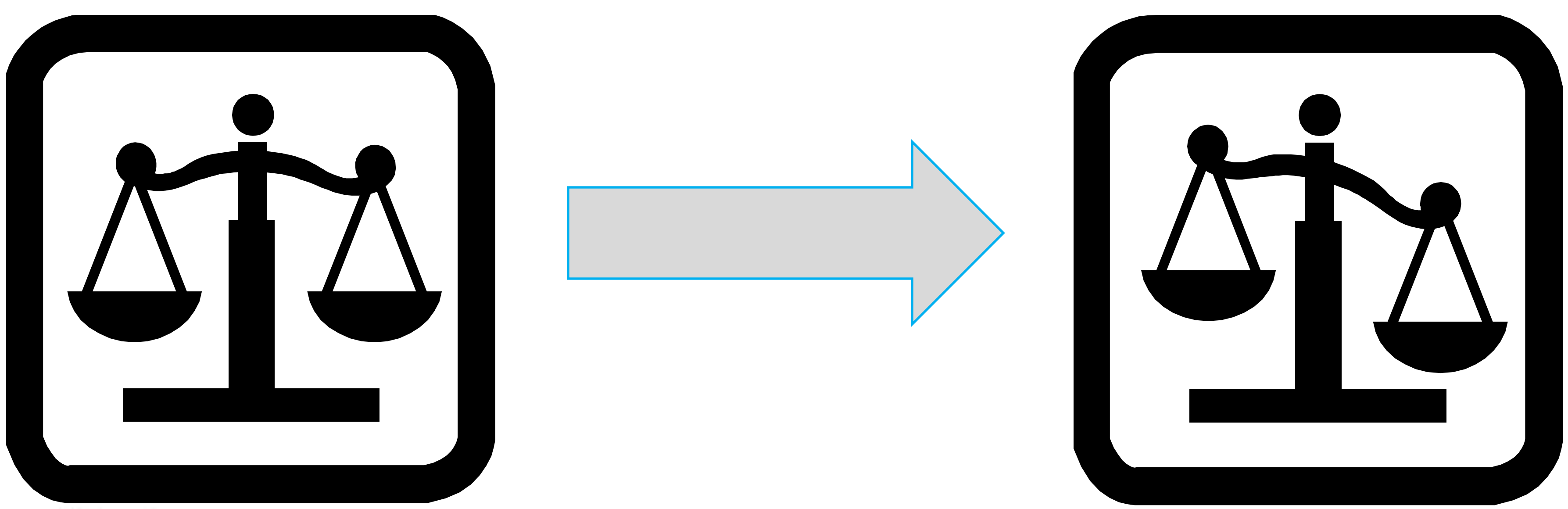
Stakeholders’ Attitudes Towards Contribution

- Broadcasters and distributors are generally open to the principle of equitable contribution and a well-funded regulatory process when consulted

- However, skepticism exists amongst stakeholders about use of funds by the regulator (e.g. “regulator will always look for new ways to spend industry contribution rather than delivering value for money regulatory services”)



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In certain cases, *Skepticism* turns into *Antagonism*

- Canada: distributors 'call-out' the regulator on customer bills ("CRTC mandated contribution") even though the contribution is for local programming and does not go to the regulator or contribute to the cost of regulation.

- Similarly, cable distributors have indicated that any fee for carriage payments resulting from negotiations between distributor and broadcasters would be added to bills as a line item called "CRTC Tax"

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Model for Equitable Contribution Regime

- Emphasis in messaging to the industry should be on 'bearing the cost of regulation' not 'financial stability of the regulator'

- Percentage of gross 'broadcasting' revenue provides starting point for stakeholders ability to pay

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‘Broadcasting’ Revenue

- Percentage of broadcasting revenue includes broadcasting across all platforms – traditional and digital, linear and non-linear
- Based on “television” programming which has the following characteristics:
  - Commercially produced, (excludes user generated content)
  - Scheduled or on video-on-demand/pay-per-view services

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‘Broadcasting’ Revenue continued

- From all broadcasting revenues generated (generally by advertising and subscription)
- Digital (online) platforms whether broadcaster-based (CBC.ca), distributor based (Rogers online portal) or third party (Apple TV)
- Recognition of diversity of revenues (e.g. cablecos and broadcasters now both access subscription and advertising revenue streams)

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Potential for Scaled Contribution Terms

- Recognition of social and cultural contribution of stakeholders in programming schedule sometimes results in reduced regulatory contribution

  - Principle applies to all stakeholders (distributors & broadcasters, for and non-for-profit broadcasters (e.g. educational broadcasters)
  - High value underrepresented programming categories which would not otherwise be produced commercially (e.g. children's, community programming, educational programming)
  - In the case of conventional and specialty broadcasters: children's, educational, campus, indigenous people's programming
  - In the case of distributors: typically community programming channels

- Recognize that a reduced contribution will go into production of socially beneficial content rather than to the firm's bottom line

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Necessary Components

- Accurate financial reporting from stakeholders
  - For equitable contribution, % must come from accurate revenue figure. All stakeholders need to subscribe to GAAP reporting (or Intl Financial Standards IFS
  - In absence of GAAP reporting, proxies can be established using 'set' regulatory fees based on market served or other market-based value estimate.

- Transparency on the part of regulator
  - In exchange for an equitable contribution model the quid pro quo on the part of the regulator is transparency in annual reporting on
    - Allocation of funds
    - Demonstration of benefits/value for money
    - Flexibility in spending (consider stakeholder feedback on 'non-essential' expenditures during difficult economic times

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For information on how Nordicity is leading the discussion towards developing Canada's national digital strategy, visit:

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