Stage Two Cost Recovery Impact Statement: Credit Contracts Legislation Amendment Act 2019 certification fees

Agency Disclosure Statement

This Cost Recovery Impact Statement (CRIS) has been prepared by the Ministry of Business, Innovation and Employment (MBIE). It provides an analysis of proposals to recover the costs associated with the Commerce Commission's new certification function under the Credit Contracts Legislation Amendment Act 2019 (CCLAA).

In 2018 Cabinet agreed that the Commerce Commission will charge fees for administering fit and proper person assessments, and subsequent reconfirmations, on a cost recovery basis. As such, options that involve the Commerce Commission using baseline funding are not considered in this paper.

Our analysis is reliant on information provided to us by the Commerce Commission regarding their estimates of the volume of applications that they will receive, the length of time it will take to carry out assessments, and the costs that they will incur.

MBIE carried out targeted consultation with affected stakeholders on proposed fees and our underlying assumptions. However, we still only have limited information for certain types of lender in the industry who will need to go through the fit and proper person certification process.

In particular, we have limited information regarding non-financial services businesses that arrange credit on an interim basis and are currently exempt from the requirement to be registered on the Financial Service Providers Register (FSPR). An additional exemption from the certification requirements is being considered by Cabinet separately. For the purposes of calculating the fee, we have assumed that the exemption is granted and/or the impacted businesses will rearrange their underlying contracting arrangements to avoid the need to hold certification. We will monitor the situation and adjust the assumptions used in calculating the fee before finalising the regulations, if necessary.

The Commerce Commission's assessment criteria and the process for carrying out assessments are outside the scope of this CRIS.

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Executive summary

The Credit Contracts Legislation Amendment Act 2019 (CCLAA) will amend the Credit Contracts and Consumer Finance Act 2003 (CCCFA) to strengthen the protections for borrowers against irresponsible and high-cost lending, and predatory behaviour by mobile traders. The CCLAA requires providers of consumer credit contracts and mobile traders to be certified by the Commerce Commission. The Commission must certify creditors and mobile traders if it is satisfied that the applicant's directors and senior managers are 'fit and proper persons'.

This Stage Two Cost Recovery Impact Statement (CRIS) provides MBIE's analysis of options to recover the Commerce Commission's costs incurred when carrying out assessments for certification through fees.

Our preferred option is for the Commerce Commission fully recover these costs through a flat fee of $1,044 (ex. GST) that will be charged up front for each director and senior manager. There will also be a fee of $11 (ex. GST) to carry out a criminal records check. In addition, the fee will be charged in respect of any new directors or senior managers of a certified creditor.

The proposal recognises that the certification itself is a private good, in that the certified creditor is the sole beneficiary of certification. Therefore the costs associated with carrying out the assessments should be recovered from them.

As there are a number of assumptions underpinning the proposed fee there is a risk of over or under recovery. Accordingly, MBIE and the Commerce Commission will monitor the implementation of the CCLAA and it is intended that these fees will be reviewed after they have been in force for three years. We should then have a clearer picture of the nature and size of the market, as well as the Commerce Commission's resources needed for the assessment process.

Status quo

One of the ways in which the CCLAA will protect borrowers is by requiring providers of consumer credit contracts, or mobile traders, to be certified by the Commerce Commission. The Commission must certify creditors and mobile traders if it is satisfied that the applicant's directors and senior managers are 'fit and proper persons'. This certification will be necessary to complete registration on the Financial Service Providers Register (FSPR) for these services. The intention behind this is to prevent unsuitable persons from working in the sector to begin with, rather than having to take action against them after an incident has occurred.

Under the CCLAA, the requirement for creditors and mobile traders to be certified will be phased in from 1 October 2021 onwards. The Commerce Commission will be able to accept applications from a date specified by Order in Council. This is currently set for 1 June 2021. Creditors that are currently registered on the FSPR will not be required to be certified until the first date after 1 October 2021 on which they are required to supply their annual confirmation details to the Registrar of the FSPR.

Entities that have already been licensed by the Financial Markets Authority (FMA) or registered by the Reserve Bank are not required to undergo certification, recognising that these entities have undergone similar checks through prior licensing processes. The CCLAA also provides for regulations to exempt other entities from the certification requirement.

In carrying out these assessments, the Commerce Commission will incur a range of costs. The CCLAA provides that regulations may be made, prescribing fees and charges in connection with applications for certification, to allow these costs to be recovered.

Cost Recovery Principles and Objectives

We have considered the Office of the Auditor General's *Good practice guide: Charging fees for public sector goods and services* and the Treasury's *Guidelines for Setting Charges in the Public Sector*[1]. We have identified the following principles and objectives in setting these fees.

Principles

- Authority – the charges must be within scope of the empowering provision.
- Effectiveness – the user charge should enable the Commerce Commission to carry out its certification function to an appropriate standard.
- Efficiency – the user charge should be no higher than necessary and the design of the cost recovery model should incentivise efficiency.
- Transparency – the cost recovery analysis should be approached in an 'open book' manner where information about costs is available to stakeholders.
- Consultation – stakeholders should be included in the development of the activity for which cost recovery is being carried out.
- Equity – the impact of the charges should be equitable between applicants over time.
- Simplicity – the cost recovery regime should be straight forward and easy to understand for affected parties.
- Accountability – any over or under-recovery should be monitored and reported on appropriately.

Objectives

Taking these principles into account, MBIE's objectives in setting the fit and proper person assessment fees under the CCCFA are as follows:

- Certification fees do not act as a barrier to the operation of creditors or mobile traders.
- Fees are set at a level that fully recovers, but does not over-recover, the costs to the Commerce Commission of assessing applications.
- Any cross-subsidy between different groups is minimised.
- Uncertainty to prospective applicants as to the likely total amount of the fees they will be required to pay is minimised.
- The Commerce Commission is incentivised to conduct certification in an efficient and effective manner.
- Charging of fees is able to be undertaken in an administratively efficient manner.

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[1] Treasury. (2017). *Guidelines for Setting Charges in the Public Sector.* Retrieved from: ***https://treasury.govt.nz/publications/guide/guidelines-setting-charges-public-sector-2017-html***

Policy Rationale: Why a user charge?[2] And what type is most appropriate?

It is proposed that the costs incurred by the Commerce Commission for operating the certification process be fully recovered in the form of a fee from those who apply for the certification. We consider that this is appropriate and consistent with Treasury's *Guidelines for Setting Charges in the Public Sector* as creditors and mobile traders will directly benefit from certification by being able to continue to operate as creditors and mobile traders. Certification is therefore a private good, and the Commerce Commission's resources used in carrying out the certification only benefit the applicant.

An argument could be made that consumers also benefit from the certification regime and the other changes in the CCLAA more generally in that these measures are ultimately designed to protect consumers. However, these benefits are reflected in the Commerce Commission's appropriation for enforcement of consumer regulation which is funded through general taxation.

If the costs associated with certification are not fully recovered, the Commerce Commission would either need to reduce its enforcement or other functions, or the costs would need to be funded out of general taxation. This would not be desirable given the certification is a private good, and any reduction in the Commerce Commission's enforcement or other functions would have adverse impacts on consumers.

The CCCFA specifies that the certification will last for a period of five years. We have proposed that the certification system be funded through a one-off fee rather than through other means (e.g. a combination of a fee and an annual levy). This recognises the relatively low forecast cost of the certification function and the increased administrative efficiency of charging a one-off fee for both the Commerce Commission and the affected businesses.

Options for cost recovery

We have identified and consulted on three options for recovering the Commerce Commission's costs. Each option would be charged on a per-director or senior manager basis in order to reduce significant cross subsidisation between smaller lenders and larger lenders. The fees would also apply to any new directors or senior managers of a certified creditor in order to recover the Commerce Commission's costs in assessing whether any new directors or senior managers are fit and proper persons.

Option 1: Flat fee (preferred option)

Under this option, each creditor would be charged a flat-fee per director[3] or senior manager[4] to all entities who apply for certification. The fee would be charged up-front when an application is made, or when there is a new director or senior manager.

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[2] Controller and Auditor-General (2008), *Charging fees for public sector goods and services*, https://oag.parliament.nz/2008/charging-fees/docs/charging-fees.pdf

[3] The definition of director is broader than a director of a limited liability company and extends to a person who assumes a governance role that is comparable with that of a director in an entity, including a sole trader.

[4] A senior manager means a person who is not a director of a creditor but occupies a position that allows that person to exercise significant influence over the management or administration of that creditor (e.g. a chief executive or chief financial officer).

TABLE 1: OPTION ONE FEES All fees listed below are per director or senior manager	
COMMERCE COMMISSION FEE	**MINISTRY OF JUSTICE CRIMINAL RECORD CHECK FEE**
$1,044.00 (Ex. GST)	$11.00 (Ex. GST)

Option 2: Two-tier fee

Under this option, there would be two separate fees. All applicants would be required to pay a simple fee, while those that are deemed complex due to the length of time required to process them would be required to pay an additional fee (estimated to be 15 per cent of applicants). This would allow the Commerce Commission to recover its costs in considering these more complex applications.

TABLE 2: OPTION TWO FEES All fees listed below are per director or senior manager		
COMMERCE COMMISSION FEE	**ADDITIONAL COMPLEX APPLICATION FEE**	**MINISTRY OF JUSTICE CRIMINAL RECORD CHECK FEE**
$813.00 (Ex. GST)	$1,344.00 (Ex. GST)	$11.00 (Ex. GST)

Option 3: Fixed fee plus hourly rate

This model is similar to Option Two, in that all applicants would be required to pay an upfront fee. However, the amount of additional fees applied to complex applicants (estimated to be 15 per cent of applicants) would be calculated on an hourly rate. This would mean that creditors with complex applications pay a fee which accurately reflects the amount of resource that has been allocated to considering the application.

TABLE 3: OPTION THREE FEES All fees listed below are per director or senior manager		
COMMERCE COMMISSION FEE	**ADDITIONAL COMPLEX APPLICATION FEE**	**MINISTRY OF JUSTICE CRIMINAL RECORD CHECK FEE**
$813.00 (Ex. GST)	$138.45 p/h (Ex. GST)	$11.00 (Ex. GST)

We propose that a fixed flat fee be charged per director[5] or senior manager[6] to all entities who apply for certification. The fee will be charged up-front when an application is made. The fee will also apply if any director or senior manager of a certified creditor change. This is so the Commerce Commission can recover its costs when assessing whether the creditor's new or existing directors and senior managers are fit and proper persons.

[5] The definition of director is broader than a director of a limited liability company and extends to a person who assumes a governance role that is comparable with that of a director in an entity, including a sole trader.

[6] A senior manager means a person who is not a director of a creditor but occupies a position that allows that person to exercise significant influence over the management or administration of that creditor (e.g. a chief executive or chief financial officer).

Assessment of options against objectives

TABLE 4: ASSESSMENT OF OPTIONS AGAINST OBJECTIVES

OBJECTIVE	OPTION ONE	OPTION TWO	OPTION THREE
Certification fees do not act as a barrier to the operation of creditors or mobile traders.	✓ We consider that these fees would not act as a barrier to entry for creditors or mobile traders. While the fees under this option are higher for most applicants than they would be under other options that were considered, they are justified and are comparable to similar fees charged by other regulators.	✓ These fees would not act as a barrier to entry for creditors or mobile traders, and they would be lower for most applicants than those under our preferred option. However, there would be uncertainty for lenders of the extent of fees that they would be liable to pay before making an application.	✓ These fees would not act as a barrier to entry for creditors or mobile traders, and they would be lower for most applicants than those under our preferred option. Similar to Option Two, there would be uncertainty for lenders of the extent of fees that they would be liable to pay before making an application.
Fees are set at a level that fully recovers, but does not over-recover, the costs to the Commerce Commission of assessing applications	✓ We consider that this fee model will allow the Commerce Commission to fully recover its costs while minimising over or under recovery. There is some risk of over or under recovery due to uncertainty of the number of assessments that will be carried out and the length of time required to carry out assessments. However, these risks have been mitigated by carrying out targeted consultation on the assumptions underlying the fee model and resulting changes.	~ There is a higher risk of significant over or under recovery under this Option than under Option One. This is because costing this option has required an estimate of the number of applications that could be considered complex, and the amount of time that would be required to assess those applicants. This additional variable increases the risk of over or under recovery.	✓✓ While this Option also requires an estimate of the number of applications that would be considered complex, the hourly-rate component reduces the risk of significant over or under recovery.
Any cross-subsidy between different groups is minimised.	~ There will be some cross-subsidy between applicants in this model as the costs of considering a small number of more complex applications will be subsidised, in part, by fees paid by other applicants. However, charging the fee on an individual, rather than an entity basis, will minimise cross-subsidy between small and large creditors.	✓ This Option would reduce the level of cross-subsidy by ensuring that creditors with simple applications are not cross-subsidising those with complex applications. There would still be some cross-subsidy among those creditors with complex applications.	✓✓ This Option would effectively remove any cross-subsidisation by charging all applicants a flat base-fee, and only applying additional charges where necessary on an hourly-rate basis.
Uncertainty to prospective applicants as to the likely total amount of the fees they will be required to pay is minimised.	✓✓ This Option minimises uncertainty as applicants will know what fee they are required to pay in advance of applying.	× This Option would lead to increased uncertainty of the cost of applying for certification that a creditor would be required to pay before making an application.	× This Option would significantly increase uncertainty of the cost of applying for certification.
The Commerce Commission is incentivised to conduct certification in an efficient and effective manner.	✓✓ This Option will incentivise the Commerce Commission to carry out certifications efficiently and effectively. If it fails to do so there is a risk of under-recovering its costs (as it will not be able to recoup any additional costs from applicants).	× The ability for the Commerce Commission to charge an additional fee when applications take longer to process does not incentivise it to carry out certifications efficiently. It could incentivise the Commerce Commission to take a risk-averse approach to processing applications in order to recover additional fees.	× As with Option Two, this Option fails to incentivise the Commerce Commission to conduct certification in an efficient or effective manner.
Charging of fees is able to be undertaken in an administratively efficient manner.	✓✓ As this Option is for a flat fee charged up-front it will be straightforward for the Commerce Commission to administer.	~ This Option would be more complicated than Option One in that it would involve two charging points, and there would be a risk of challenge from applicants (if they disagreed with how their application had been processed).	× This option would be complex to administer. It would require multiple charging points, and for the Commerce Commission to implement a time recording system to record the time spent processing individual applications. As with Option Two, there would also be a heightened risk of challenge from applicants.

Overall, we consider that Option One is the fee model that is most likely to meet the majority of our objectives. While it will lead to some cross-subsidy, it will provide certainty for applicants, incentivise the Commerce Commission to be efficient and effective, and will generally be an efficient and cost-effective regime to administer.

The level of the proposed fee and its cost components (cost recovery model)

We propose that the fit and proper person assessment fees be charged as a flat fee, as set out in the table below.

TABLE 2: OUTLINE OF PROPOSED FEES **All fees listed below are per director or senior manager**	
COMMERCE COMMISSION FEE	**MINISTRY OF JUSTICE CRIMINAL RECORD CHECK FEE**
$1,044.00 (Ex. GST)	$11.00 (Ex. GST)

This charging model differs from the high-level cost recovery model included in the Stage 1 Cost Recovery Impact Statement. The high-level model included a separate lower renewal or re-confirmation fee. We consider that it would be more appropriate to set any separate renewal fee after we have a better understanding of the volume of applications and the Commerce Commission's costs. Certifications will generally last for around five years, and it is envisaged that any renewal fee will be set before the majority of certifications expire.

Cost components

There are a number of cost components of the proposed fee, as set out in the table below:

TABLE 3: COST COMPONENTS –COMMERCE COMMISSION FEE (ex. GST)	
Personnel costs	$403.02
System support costs	$192.77
System costs	$198.55
Overheads	$250.15
Total	**$1,044.49**

Personnel costs: The costs of staff working directly on assessing applications and making decisions regarding certification. The Commerce Commission will incur costs related to the amount of staff time required to consider an application for certification. It is anticipated that the majority of applications (85 per cent) will be simple and take around 3.5 hours of staff time to complete. It is anticipated that the remaining applications will be more complex and may take up to 12 hours of staff time to complete. These complex applications could include those where the applicant has previously been investigated by the Commerce Commission or has directors or senior managers that are domiciled overseas.

System support costs: These costs reflect the expected operational costs of the Companies Office associated with maintaining the FSPR's functions relating to certification and providing support to the Commerce Commission. These costs will be recovered from the Commerce Commission, and therefore will be incorporated into fees.

System costs: The FSPR will require specific development of functionality to support the management of the CCCFA certification requirements. We also expect that further FSPR system upgrades will be required over time to support the CCCFA certification assessments. Both these costs need to be recovered through fees and as a result, the costing model provides for initial and enhancement system costs.

Commerce Commission overhead costs: These costs reflect indirect Commerce Commission costs, such as property, finance, and human resources, and are allocated in line with the Commerce Commission's standard cost allocation methodology.

System support costs and system costs are fixed costs and spread evenly over five years, while the personnel costs and overhead costs fluctuate due to the anticipated variation in volumes.

Forecast revenue and expenditure

It is anticipated that the majority of applications will be made in the first two years of the certification function as the requirement to hold a certification is phased in.

TABLE 4: ESTIMATED REVENUE AND COSTS (ex. GST)

	2021/22	2022/23	2023/24	2024/25	2025/26	TOTAL
FORECAST REVENUE						
Projected volumes	1,723	348	348	348	348	3,113
Projected revenue	$1,799,141	$362,962	$362,962	$362,962	$362,962	$3,250,988
FORECAST EXPENDITURE						
Personnel costs	$688,466	$138,438	$140,441	$142,484	$144,568	$1,254,397
System support costs	$120,000	$120,000	$120,000	$120,000	$120,000	$600,000
System costs	$123,600	$123,600	$123,600	$123,600	$123,600	$618,000
Commerce Commission overhead costs	$462,300	$78,451	$78,850	$79,262	$79,728	$778,591
Total costs	$1,394,366	$460,486	$462,891	$465,346	$467,896	$3,250,988
NET REVENUE	$404,775	($97,527)	($99,929)	($102,384)	($104,934)	$0

Table 4 shows that the Commerce Commission is expected to over-recover in 2021/22 when the bulk of applicants are expected to be received. This over-recovery is offset by a forecast under-recovery in subsequent years. This is due to:

- higher fixed system support costs in later years,
- system costs being spread evenly over five years, and
- a year-on-year increase in Personnel Costs and Overhead Costs after 2021/22 due to upward adjustments for inflation.

As our preferred option is for a flat fee rather than charging as an hourly rate, a large fluctuation in the number of total applicants could result in a significant over or under recovery. For example, a 15 per cent reduction in the volume of applicants would result in under-recovery of approximately $512,000. Similarly, an over or under-recovery could occur if the Commerce Commission's assumptions regarding the length of time required to process applications are incorrect. We will monitor the number of applications and the Commerce Commission's costs in carrying out its certification function and can revisit our assumptions as well as the relevant fees, if necessary.

Fee comparison across similar regimes

The Commerce Commission does not currently charge fees of this type and there is no internal comparison available. The FMA charges an application fee of $1,144.89 (in. GST) for applications to become an authorised financial adviser. We consider the assessment process associated with this application to be broadly similar to the assessment that will be carried out by the Commerce Commission, and we are satisfied that the proposed fee ($1,044 ex. GST) is of similar size to the FMA fee.

We note that there are challenges in drawing direct comparisons between assessments carried out by separate organisations under different regulatory regimes. We consider this to be a reasonable proxy measure of the size of the fee, but ultimately monitoring and review of the fee structure and any over/under recoveries will provide the best information on fee levels moving forward.

Impact analysis

The requirement to obtain certification will apply to all creditors and mobile traders which have not already been registered or licensed by the FMA or the Reserve Bank. This includes 27 registered banks and 20 licensed non-bank deposit takers. The table below sets out the Commerce Commission's assumptions for the number of applications for certification it will receive over the first five years of its certification function.

Estimates regarding the total number of creditors have been informed by current registration numbers on the FSPR. Estimates regarding the number of directors and senior managers per creditor have been informed by an examination of the management and governance structure of creditors currently registered on the FSPR (excluding those who will be exempt from the requirement to hold a certification). We received some feedback that the estimated number of directors and senior managers was too low, with some submitters noting that it was best practice to have boards of upwards of six directors. While this will be true of larger creditors, the average volume is brought down by the low number of directors for smaller creditors. Further, many larger creditors are exempt from the certification requirements due to being licensed by the FMA or Reserve Bank and a further exemption from certification is being sought for non-financial services businesses that provide credit on an interim basis.

The estimated number of applicants also includes those where a director or senior manager of a certified person changes, requiring a new fit and proper person assessment to be carried out. In these cases the fee will only be charged in respect of any new director or senior manager.

TABLE 5: ESTIMATED NUMBER OF APPLICANTS FOR CERTIFICATION PER YEAR

	2021/22	2022/23	2023/24	2024/25	2025/26
Number of creditors and mobile traders	485	85	85	85	85
Total number of directors and senior managers (estimate of 3.5 assessments per entity)	1,698	298	298	298	298
Number of assessments resulting from changes in circumstances	25	50	50	50	50
Estimated total number of assessments of directors and senior managers	**1,723**	**348**	**348**	**348**	**348**

Fully recovering these costs through the setting of fees will allow the Commerce Commission to carry out its certification function without needing to divert resources from its general enforcement of the CCCFA. The requirement to be certified will be phased in from 1 October 2021, so it is expected that there will be a large influx of applications in the 2021/22 financial year, and the Commerce Commission expects to have additional resource available during this period (as shown in Table 4).

The CCCFA requires creditors and mobile traders to register on the FSPR. The fees for registration are set out in the table below. In addition, they will incur FMA levies when they initially register on the FSPR, and then at each annual confirmation thereafter. Unlike the fees for certification, these fees and levies are charged on a per-creditor basis.

TABLE 6: EXISTING CHARGES (ex. GST)	
Service	Fee
Fee for initially registering on the FSPR	$300.00
FSPR criminal history check fee (per person)	$35.00
FMA levy (on initial registration)	$500.00[7]
Annual confirmation fee (payable from the first anniversary of registration)	$75.00
Annual FMA levy (payable from the first annual confirmation)	$560.00[8]

The criminal history check fee charged for registration on the FSPR examines a narrower set of criteria than the check that the Commerce Commission requires for certification under this regime. As such, we consider the proposed Ministry of Justice fee is justified in addition to the charge above.

Consultation

MBIE carried out targeted consultation with creditors and industry associations that represent creditors who will be required to pay the certification fee. This involved formal consultation on a discussion document that sought feedback on three options for the fit-and-proper person assessment fees, including our preferred option. Four submissions were received, and there were mixed views on which option was the most suitable. Some submitters favoured the option that would comprise of a single fixed fee (our preferred option), as this would increase certainty for applicants. Others favoured the two-tiered options which would lead to lower application fees for most applicants.

We also sought feedback on the assumptions that underpin the fee model and have made changes based on the feedback received. The major changes from the consultation to the final fee model set out in this CRIS are as follows:

- Reductions in the personnel costs and overheads being collected so that these amounts reflect the estimated time spent assessing applications.

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[7] As at 1 July 2021. In July 2020 Cabinet agreed to increase the FMA's funding, resulting in an increase to the amount collected through levies which is to be phased in over three years. The amount charged on initial registration will increase to $600 in 2022/23.

[8] As at 1 July 2021, to increase to $660 in 2022/23.

- An increase in the system costs as the original estimates for this work would not have resulted in the Commerce Commission fully recovering these costs.
- A slight reduction of the estimated total number of applications across five years as a result of having more up-to-date information available.

Each submitter generally represented a range of lenders of varying sizes and there were few comments from individual lenders that could be used to distinguish differences in impact on 'small' or 'large' businesses.

Conclusions and recommendations

We recommend that fees be prescribed in regulations that will allow the Commerce Commission to charge a $1,044 (ex. GST) certification fee when it receives an application for a fit and proper person assessment, or when a new assessment is required due to change in a certified creditor's directors or senior managers. In addition, we recommend that the regulations allow the Commission to charge an additional $11 (ex. GST) fee to carry out a Ministry of Justice criminal record check. Our proposed charging model will allow the Commerce Commission to fully recover the costs associated with the certification system and meets the principles of simplicity, efficiency, effectiveness and accountability, as well as our policy objectives.

Implementation plan

Under the CCLAA, the requirement for creditors and mobile traders to be certified will be phased in from 1 October 2021 onwards. The Commerce Commission will be able to accept applications from 1 June 2021. Creditors that are currently registered on the FSPR will not be required to be certified until the first date after 1 October 2021 in which they are required to supply their annual confirmation details to the Registrar of the FSPR.

This approach reduces the risk of the Commerce Commission receiving a large influx of applications in advance of the commencement date. However, there is still likely to be a larger number of applications in the first year of the scheme, as reflected in Table 5. The forecast costs of the system allows for the Commerce Commission to hire additional resource during this initial period.

The application process itself, and the collection of the fee, will take place on the FSPR so it should be relatively straightforward for applicants which are already required to be registered on the FSPR. This approach should also be relatively cost-effective for the Commerce Commission as it will not require the development of an entirely new system. A flat-fee model will also be relatively cost-effective to administer.

The internal workflow system that will most likely be used to manage applications has been designed by the developers of the FSPR and is fully integrated with the FSPR system. This will optimise resource efficiency when assessing applications and allows for cost effective management of system enhancements.

Proposed use of the MBIE contact centre for both the FSPR and certification process will mean training and staffing is not required for this function at the Commission.

Monitoring and evaluation

MBIE has ongoing regulatory stewardship obligations and will work with the Commerce Commission to monitor the implementation of the CCLAA. This will include working with the Commerce

Commission to monitor volumes of applications, the impact on the Commerce Commission's resourcing and whether there has been any significant over or under recovery.

The Commerce Commission is also developing a number of metrics to measure its performance in carrying out certifications and determining whether it has the appropriate level of resource for this function.

Review

MBIE will monitor the number of applications during the implementation of the CCLAA in order to ensure that the charging model remains appropriate and is meeting its objectives. Due to the uncertainty regarding the number of likely applicants, and the costs of processing these applications, we recommend that these fees be formally reviewed by MBIE after they have been in force for three years. This will allow us to monitor volumes and costs as the requirement to hold a certification is phased in and after one year of 'business-as-usual'. This will provide an accurate picture of the size of the lending market after these regulatory reforms have been fully implemented.