EXPLANATORY MEMORANDUM TO

THE AUDIOVISUAL MEDIA SERVICES REGULATIONS 2010

2010 No. 419

1. This explanatory memorandum has been prepared by the Department for Culture, Media and Sport and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

- 2.1 The instrument inserts into the Communications Act 2003 and the Wireless Telegraphy Act 2006 provisions which amend and supplement the provisions previously inserted by the Audiovisual Media Regulations 2009 (S.I. 2009/2979). It:
- requires businesses to notify the regulatory authorities if they are providing, or intend to provide, an on-demand programme service;
- allows the regulatory authorities to levy fees on providers of on-demand programme services in order to cover the cost of regulation;
- requires providers of on-demand programme services to retain copies of programmes for at least forty-two days;
- enables OFCOM to require a provider of a satellite uplink service to cease or suspend uplinking of an on-demand programme service, where such a service has not been notified to the regulatory authorities; and
- corrects some errors in the Audiovisual Media Services Regulations 2009.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 The error in section 368P(2), which was identified by the Joint Committee has been corrected in Regulation 11(b) and (c) of this instrument.

4. Legislative Context

- 4.1 The Audiovisual Media Services Regulations 2009 (S.I. 2009/2979) implemented in UK law certain provisions of the EU Audiovisual Media Services (AVMS) Directive (2007/65/EC), by way of new provisions inserted into the Communications Act 2003 and the Wireless Telegraphy Act 2006. In particular, those Regulations established a legal framework for coregulation of on-demand programme services (in effect: video-on-demand services).
- 4.2 This instrument completes the arrangements for the regulatory regime by requiring businesses to notify the regulatory authorities that they are providing, or intend to provide, an ondemand programme service, allowing the regulatory authorities to levy fees on providers of such services in order to cover the cost of regulation and requiring service providers to retain copies of programmes and advertisements for at least forty-two days. These measures were not included in the 2009 Regulations as they were subject to notification to the European Commission under the Technical Standards Directive. That notification was submitted to the Commission on 16 November 2009. The three-month notification period ended on 15 February 2010 without the Government being informed of any objections to the proposed measures.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Secretary of State for Culture, Media and Sport has made the following statement regarding Human Rights:

"In my view the provisions of the Audiovisual Media Services Regulations 2010 are compatible with the Convention rights".

7. Policy background

• What is being done and why

- 7.1 The Audiovisual Media Services Regulations 2009 established a legal framework within which to regulate on-demand programme services and ensure that they adhere to the standards set out in the AVMS Directive. The Regulations give regulatory powers to Ofcom in relation to such services and permit Ofcom to designate one or more bodies to act as co-regulator(s).
- 7.2 This instrument completes the arrangements for the regulatory system. It introduces provisions which require businesses to notify the regulatory authorities that they are providing, or intend to provide, an on–demand programme service. Enforcement powers are provided for in the Communications Act 2003 in respect of services which are established in the UK, and in the Wireless Telegraphy Act 2006 in respect of services which are deemed to be within UK jurisdiction under the Directive only by virtue of being uplinked to a satellite from within the UK. Providers of on-demand programme services must also pay such fees as may be set by the regulatory authorities. These measures ensure that on-demand programme services and service providers cannot seek to evade the requirements of the Directive by remaining outside the regulatory system, that the costs of operating the regulatory system will be borne by industry, and that businesses providing an on-demand programme service cannot avoid contributing to those costs.
- 7.3 Service providers must also retain copies of all programmes and advertisements carried on their service for at least forty-two days after they cease to be available to the public on the service. This ensures that the regulatory authorities will be able to investigate complaints about content for a reasonable period after a programme or advertisement ceases to be available on the service concerned.
- 7.4 The Joint Committee on Statutory Instruments identified a drafting error in section 368P(2) of the Communications Act 2003 as inserted by the Audiovisual Media Services Regulations 2009. This provision was intended to disapply section 368F (advertising) and section 368G (sponsorship) from the BBC, as these activities are already regulated by the BBC Agreement. However, the provision did not have the intended effect, and this has been corrected by Regulation 11(b) and (c) in this instrument.
- 7.5 Regulation 3 of this instrument corrects cross-references in subsections 368B(1) and 368B(6) of the Communications Act 2003, as inserted by the Audiovisual Media Services Regulations 2009, so that they refer to the intended subsections.
- 7.6 Regulation 6 of this instrument replaces an errant comma with a "-" in section 368G(2) of the Communications Act 2003 as inserted by the Audiovisual Media Services Regulations 2009.

7.7 Regulation 14 of this instrument amends the extent of the regulatory powers of OFCOM in relation to the Welsh Authority and its on-demand programme services in respect of the provisions created by the Audiovisual Media Services Regulations 2009 and by this instrument.

• Consolidation

7.8 This instrument amends and supplements provisions inserted into the Communications Act 2003 and the Wireless Telegraphy Act 2006 by the Audiovisual Media Services Regulations 2009. The Government has no current plans to consolidate this legislation.

8. Consultation outcome

- 8.1 The Government held a public consultation during 2008 on proposals for the implementation of the AVMS Directive. There were 59 responses to the consultation, mostly from the broadcasting, new media and advertising industries and from civil society organisations.
- 8.2 Most industry respondents agreed with the Government's preferred option of a coregulatory system in which an industry-led body would be the co-regulator for programme content and the Advertising Standards Authority would be the co-regulator for advertising, with Ofcom retaining 'backstop' powers to deal with serious cases or to intervene in the event of a failure of the co-regulatory system. Most also accepted that industry should be responsible for meeting the costs of a co-regulatory system and that some form of membership or notification arrangement would be required to ensure that the regulatory authorities knew who they were regulating and that all those subject to regulation contributed to the costs. However, some civil society organisations preferred direct regulation by Ofcom or by a separate independent body and some also thought that a prior approval regime or some other form of authorisation system would be more effective in ensuring compliance with the required content standards.
- 8.5 The consultation document, the responses and a summary of the responses are available on the Department's website at: www.culture.gov.uk/reference_library/consultations/5309.aspx
- 8.6 The main industry and civil society stakeholders were further consulted in spring 2009 on a draft version of the provisions concerning notifications and fees. Following that informal consultation, a number of changes were made to these provisions.

9. Guidance

9.1 No provision has been made for statutory guidance to be issued. Ofcom and, where Ofcom decides to designate functions in accordance with the Regulations, the co-regulator(s) for on-demand programme services are likely to issue guidance as an aid to interpretation to assist stakeholders and users.

10. Impact

- 10.1 The impact on business is that businesses providing on-demand programme services must ensure that they notify and pay fees to the regulatory authorities.
- 10.2 The impact on the public sector is that Ofcom, and any co-regulatory bodies designated by Ofcom, will be able to recover the costs incurred in regulating on-demand programme services from the fees which providers of such services will be required to pay.
- 10.3 The Impact Assessment attached to this memorandum is a shortened and slightly amended version of the one which accompanied the Audiovisual Media Services Regulations 2009. The figures given in that document as the likely annual costs to industry are not thought to have changed. However, the total cost over 10 years has been revised to begin from April 2010, rather

than December 2009 as in the previous Impact Assessment. The anticipated one-off cost for transition to the new regulatory arrangements has been revised in the light of further work and analysis. The full, original Impact Assessment is available on the Department's website at www.culture.gov.uk/images/publications/IA_AVMS_REGS09_OnDemand_Services.pdf.

11. Regulating small business

11.1 The legislation applies to small business. It is anticipated that few small businesses which employ fewer than 20 people will be providing services which satisfy the definition of an ondemand programme service and fall within the scope of the regulatory system, although some small start-up businesses may be affected. However, the Government expects that the fees payable to the regulatory authorities by businesses providing on-demand programme services will be set in such a way as to minimise any potential adverse impacts on small businesses.

12. Monitoring & review

12.1 The Government will review the implementation of the Directive in 2012.

13. Contact

Chris Bone at the Department for Culture, Media and Sport, Tel: 020 7211 6444 or email: chris.bone@culture.gsi.gov.uk can answer any queries regarding the instrument.

Summary: Intervention & Options					
Department /Agency: DCMS	Title: Impact Assessment of legislation to implement the EU Audiovisual Media Services Directive – co-regulation of video-on-demand services				
Stage: Implementation	Version: 2.0	Date: 22 nd February 2010			
Related Publications:					

Available to view or download at:

http://www.culture.gov.uk

Contact for enquiries: Chris Bone Telephone: 020 7211 6444

What is the problem under consideration? Why is government intervention necessary?

The EU Audiovisual Media Services (AVMS) Directive requires Member States to ensure that videoon-demand services within their jurisdiction meet certain minimum content standards. These standards include a prohibition on incitement to hatred on grounds of race, sex, religion or nationality, and requirements relating to the identification of services, access for disabled people, advertising content and presentation, including product placement and sponsorship, promotion of European works and protection for children from material which could be harmful to them.

The Directive encourages 'co-regulation', whereby the video-on-demand industry takes the lead in regulating itself to ensure that the EU standards and requirements are met, dealing fairly with complaints from the public, and imposing sanctions if necessary, but with a power for the public authorities to intervene in the event of a serious and sustained failure to meet the requirements of the Directive. The Government needs to ensure that the legal provisions governing the regulatory system are sufficient to enable it to operate effectively and efficiently.

What are the policy objectives and the intended effects?

The objective is to ensure that providers of on-demand programme services identify themselves to the regulatory authorities and contribute to the costs of regulation; and that they retain copies of programmes and advertisements for a reasonable period after they cease to be available. These measures will help to ensure that the regulatory system can operate effectively and efficiently.

What policy options have been considered? Please justify any preferred option.

The Government considered three options: (1) the Government would designate one or more industry bodies to act as co-regulator(s); (2) Ofcom would have the power to designate the co-regulator(s); (3) Ofcom would regulate video-on-demand services directly with no input from industry. Following consultation, the Government selected option (2). This offers a flexible, light-touch arrangement, which should benefit both industry and the consumer, while retaining overall oversight and 'backstop' powers with an experienced media regulator. The Audiovisual Media Services Regulations 2009 (S.I. 2009/2979) created the initial legal framework for the regulatory system.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

2012

Ministerial Sign-off For implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Ben Bradshaw

......Date: 22nd February 2010

Summary: Analysis & Evidence

Policy Option: 2

£ 120.000

Description: Establish a co-regulatory body (or bodies) for video-ondemand services, to be appointed by Ofcom

ANNUAL COSTS One-off (Transition) Yrs £ 125,000 1 Average Annual Cost (excluding one-off)

Description and scale of **key monetised costs** by 'main affected groups'

The additional annual cost to industry is based on Ofcom's estimate that it will cost £320,000 to regulate the industry (made up of fees paid by industry), less the current assumed cost base of £200,000. The additional cost of £120,000 produces a PV of £1.04m over ten years. The one-off cost is the estimated cost of establishing a body which Ofcom can designate as a co-regulator..

Total Cost (PV) £ 1.2m

Other **key non-monetised costs** by 'main affected groups' All UK video-on-demand providers will need to ensure that they have procedures in place to ensure compliance with the requirements of the Directive and to engage effectively with the new co-regulatory system. These costs are thought to be very small and have not been quantified separately.

	ANNUAL BENEFITS				
	One-off				
ပ္ပ	Ŧ				
BENEFITS	Average Annual Benefit (excluding one-off)				
BE	£				

Time Period

Description and scale of **key monetised benefits** by 'main affected groups'

Total Benefit (PV)

Not quantified

Other **key non-monetised benefits** by 'main affected groups' The regulatory system for videoon-demand services will operate effectively and efficiently to the benefit of service providers and

NET RENEEIT (NDV Bost ostim

Key Assumptions/Sensitivities/Risks Without the requirement for service providers to notify and pay fees, the regulatory scheme would not be able to operate effectively and efficiently. As a result, users of UK video-on-demand services would have no guarantee that these will meet minimum EU content standards, and the UK might become liable to infraction proceedings under EU law.

Net Renefit Range (NDV)

users, ensuring that services meet the minimum content standards set out in the AVMS Directive.

Year 2010	Years 10	£ N/A	(NPV)	-£1.2m	NEFII (NPV Best estimate)		
What is the geographic coverage of the policy/option?				United Kingdom			
On what date will the policy be implemented?				17 March 2010			
Which organisation(s) will enforce the policy?				Ofcom			
What is the total annual cost of enforcement for these organisations?				£ 320,000			
Does enforcement comply with Hampton principles?				Yes			
Will implementation go beyond minimum EU requirements?				Yes			
What is the value of the proposed offsetting measure per year?				£ 200,000			
What is the value of changes in greenhouse gas emissions?				£ nil			
Will the proposal have a significant impact on competition?				No			
Annual cost (£ (excluding one-off)	C-£) per organisat	ion	Micro	Small	Medium	Large	
Are any of the	se organisations	exempt?	No	No	N/A	N/A	

Impact on Admin Burdens Baseline (2005 Prices)

(Increase - Decrease)

Increase of £

Price Rase

Decrease of £

Net Impact

£ Not quantified

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

The Audiovisual Media Services (AVMS) Directive sets out minimum content standards for video-on-demand services in the EU and requires the Government to ensure the existence of a regulatory system to secure these standards for services operating from within the UK. Article 3.3 encourages the use of co-regulation and self-regulation.

A 'self-regulatory' scheme is one which is operated entirely voluntarily by the industry itself, without any legal backing. Industry members can enter it if they wish, but are not obliged to do so, and there is no law requiring them to abide by any industry Codes or judgements that may emerge from it. Self- regulation offers cost and flexibility advantages, provided that there are appropriate incentives in terms of market needs and /or the possibility of statutory intervention.

A co-regulatory scheme is similar to a self-regulatory one in that it allows the industry to take the lead in setting and enforcing standards for the content of its services. But in this case there is legal backing for its activities. This legal backing might take a number of different forms, but whatever its precise nature it will mean that an operator who consistently disregards the co-regulatory body's standards or judgements will be ultimately be subject to legal sanctions of some kind.

The Government takes the view that the legal requirements of the Directive are such that purely self-regulatory schemes are insufficient.

The current regulatory system for video-on-demand services

There is currently no statutory regulatory system for video-on-demand services in the UK.

Some providers of video-on-demand services belong to one of the two industry self-regulatory bodies, the Association for Television On Demand (ATVOD) and the Independent Mobile Classification Board (IMCB), and others do not. ATVOD's membership currently consists of BT, Virgin, Tiscali, ITV, Channel 4, Five, FilmFlex, and OnDemand, with the BBC as associate members. In the case of IMCB, covering mobile content, the six signatories of the mobile code do not include all of the relevant content providers. However, IMCB's code covers all commercial content which is supplied via a mobile phone network because the signatories include all five of the networks. Other UK video-on-demand providers (for example, BSkyB) do not currently belong either to ATVOD or to IMCB.

The number of complaints to ATVOD about the content of video-on-demand programming in the organisation's approximately four years of existence is nil (though it has had complaints about some technical issues). The position in respect of IMCB is similar.

The current regulatory system for advertising in video-on-demand services

Self-regulation of non-broadcast advertising dates from the founding of the Advertising Standards Authority (ASA) in 1962 with the aim of ensuring that advertisements were "legal, decent, honest and truthful". Since 1988 this has been backed up by statutory powers and possible referral to the Office of Fair Trading (OFT). Advertising in video-on-demand services is currently treated as non-broadcast advertising.

The relevant ASA codes of practice are divided between broadcasting (Broadcast Code of Advertising Practice - BCAP) and non-broadcast (Code of Advertising Practice - CAP) arms. In broadcasting, compliance with the ASA's Code is a condition of the relevant Ofcom licence.

The Broadcast Advertising Standards Board of Finance Limited (basbof) funds the ASA's regulation of broadcast advertising through a levy of 0.1% of the advertising cost to the client collected through the agencies or media owners. In 2007 the income from this levy was £3.6 million, of which 94% was paid towards self regulatory costs, providing funds of almost £3.3 million to the ASA.

The options for regulation

There is no indication that UK video-on-demand services breach any of the standards in the Directive. Indeed, the standards of the Directive are already exceeded for the most part. But the Directive's requirements are clear and mean that the UK must have arrangements for securing the minimum EU standards for video-on-demand content in a way that applies to all relevant providers and has legal backing. This means that maintaining existing arrangements cannot be an option even if they are extended to the whole industry. The Government has therefore opted for a system that enables co-regulation.

The Government's 2008 consultation outlined three options for complying with the Directive's requirements in respect of the programme content in video-on-demand services:

- 1. a UK co-regulatory body (or bodies) for video-on demand, which the Government would appoint directly;
- 2. a UK co-regulatory body (or bodies) for video-on demand, which Ofcom would appoint;
- 3. no UK co-regulatory body for video-on-demand the requirements of the Directive would be secured through direct regulation by Ofcom.

For advertising content, the consultation document set out options in which regulatory responsibility might be assigned to

- 1. the Advertising Standards Authority (ASA):
- 2. the programme content co-regulatory body;
- 3. another body altogether.

The Government expressed a preference for a new framework which would allow a coregulatory body to regulate programme content and the ASA to regulate advertising content, with regulatory powers being assigned to both bodies by Ofcom. In the light of the responses to the consultation, the Government confirmed this preferred approach in March 2009.

The Audiovisual Media Services Regulations 2009 (S.I. 2009/2979) established the legal framework for a co-regulatory system. Within this framework, Ofcom is able to designate one or more bodies to act as co-regulators for the video-on-demand sector.

The Government's implementation proposals also envisaged that video-on-demand service providers would be required to notify the regulatory authorities that they intend to provide a video-on-demand service (or are already providing such a service) and to pay a fee to the authorities. The fees paid by video-on-demand services will be used to cover the costs of the regulatory system. These requirements had to be notified to the European Commission under the Technical Services Directive, and could not be included in the 2009 Regulations. The

notification process with the Commission has now been completed and the Government has brought forward these further Regulations to implement these requirements.

Costs of co-regulation

ATVOD's average membership fee is in the order of £20,000 per annum and its annual budget less than £200,000. This is covered entirely by the fees paid by its members. £200,000 is therefore the current cost of self-regulation.

A co-regulatory system would result in costs to the video-on-demand industry accruing from a) setting up the video-on-demand co-regulatory body and b) running the co-regulatory system thereafter. There may however be some offsetting savings, in that ATVOD and IMCB have already pioneered much of the necessary work in terms of setting up complaints procedures.

Ofcom has estimated that there are around 150-200 video-on-demand services which are likely to fall within the scope of the co-regulatory system¹. Based on an estimate of at least 150 notifiable services, and an initial estimate from ATVOD that the budget for the regulation of video-on-demand services will be around £400,000 for the first 15 months (19 December 2009 to 31 March 2011), Ofcom estimates that an initial notification fee for video-on-demand service providers, to cover the costs of the co-regulatory system, would be likely to be between £2,000 and £2,500 for each service (up to £500 for the period 19 December 2009 to 31 March 2010 and up to an additional £2,000 to cover the period 1 April 2010 to 31 March 2011). Ofcom considers that it would be appropriate to review the fee structure for the financial years after 2010-11, and Ofcom would expect any co-regulatory body that it might designate to consult stakeholders before taking any decisions in this area. The overall costs to industry are therefore likely to be marginal. However, the additional costs of a co-regulatory system would fall largely on those mostly smaller and medium-sized service providers who are not already members of, and therefore do not pay a membership fee to, ATVOD or IMCB.

The additional annual cost to industry is £120,000. This based on Ofcom's estimate that it will cost £320,000 to regulate the industry (made up of notification fees), less the current assumed cost base of £200,000. The additional cost of £120,000 produces a PV of £1.2m over ten years from 2010.

The costs of the two options which the Government did not select (co-regulatory bodies appointed directly by the Government, and direct regulation by Ofcom) would be broadly similar, since the same functions would need to be carried out and costs would have to be recovered through fees payable by industry.

The costs to industry of complying with the requirements of the Directive and engaging with the regulatory system have not been quantified separately. They are thought to be very small and, for most service providers, are likely to be absorbed within their existing business structures and costs. However, some small service providers may find the additional compliance costs more onerous.

Benefits

Consumers would benefit from a co-regulatory system which operates efficiently and effectively to provide assurance that UK video-on-demand providers are meeting the minimum content standards set out in the AVMS Directive, and that appropriate action will be taken when providers breach these standards. These standards include a prohibition on incitement to hatred on grounds of race, sex, religion or nationality, and a requirement to ensure that children are not able to access material that might seriously impair their physical, mental or moral

¹ Ofcom, Proposals for the regulation of video on demand services – Consultation, September 2009. See paragraph 4.86.

development. Such content can have negative consequences and costs for individuals and society.

Co-regulation would provide a benefit to video-on-demand suppliers, in that they would effectively own and operate the co-regulatory system(s). That should give them an assurance that the arrangements will remain light-touch and flexible while assuring the necessary standards for consumers. In addition, it is easier for Ofcom than the Government to intervene to correct problems with co-regulatory arrangements, should any arise. That would be to the advantage of both consumers and suppliers.

Competition assessment

The notification procedures and fees charged in order to cover the costs of regulation could weigh more heavily upon new and smaller providers. It will be important to ensure that the fees are kept to a minimum and are perceived to be fair and not set in such a way as to work to the disadvantage of some providers. However, the application procedure and fees charged by Ofcom for television broadcasting licences do not appear to have deterred a large number of companies from applying for and obtaining broadcasting licences. There is no reason to assume that fees for video-on-demand services charged at the rates indicated above would be perceived any differently.

Small firms impact test

Under existing arrangements for television broadcasting, Ofcom has issued licences (television licensable service licences) to a large number of small firms which operate television stations. Their procedures and fees do not appear to be perceived as an obstacle to smaller operators. Ofcom's fees are related to relevant turnover, but with minimum and maximum fees.

It is not clear whether a co-regulatory body would be seen in the same light. The issues which we discuss in the competition assessment section and at the end of the costs section are relevant in this context. In particular it is important that notification procedures and fees are not perceived as working to the disadvantage of new, start-up and smaller providers.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	No	Yes
Other Environment	No	Yes
Health Impact Assessment	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

Annexes

Legal Aid

There might be an impact on the legal aid budget if a supplier of video-on-demand services were to seek legal aid in order to challenge a decision by Ofcom or the industry co-regulator in the Courts. However, the Government considers that the likelihood of a provider qualifying to receive legal aid is very low.

Sustainable development

There will be no impact on sustainable development from the requirements of the Directive or the plans for regulating video-on-demand services.

Carbon assessment

There will be no impact on carbon emissions from the requirements of the Directive or the plans for regulating video-on-demand services.

Other environment

There will be no other environmental impacts from the requirements of the Directive or the plans for regulating video-on-demand services.

Health; race, disability and gender equality; human rights

Implementation of the Directive in the UK will have marginal benefits in each of these areas. In each case, that is because the Directive sets out minimum standards applicable to the advertising and programme content of video-on-demand services. The requirements for service providers to notify and pay fees to the regulatory authorities and to retain copies of programmes and advertising will ensure that the regulatory system is able to deal quickly and efficiently with complaints about the content of video-on-demand services.

Rural proofing

There will be no impact on rural issues from the requirements of the Directive or the plans for regulating video-on-demand services.