

Annex 1. Draft guidance on qualifying worldwide revenue

About this document

1. This document provides high-level guidance on the concept of qualifying worldwide revenue (QWR) used in the Online Safety Act 2023 (the Act) and the Online Safety Act 2023 (Qualifying Worldwide Revenue) Regulations 2025 (QWR Regulations).¹
2. It is intended to assist providers of services regulated under the Act, particularly those likely to be liable to pay fees to Ofcom, to determine their QWR in accordance with the QWR Regulations.
3. The Act stipulates that any fees payable by providers of a regulated service should be set by reference to that provider's QWR. Under the Act, the definition of QWR used for the calculation of fees is also used to calculate the maximum penalty that Ofcom can impose on a provider for a breach of its duties under the Act. The concept of QWR is therefore relevant to both fees and penalties.

Role and status of this guidance

4. One of our regulatory principles is that we will regulate in a transparent manner. Guidance can serve as a useful means to achieving this principle and to increasing understanding of our approach to regulation.
5. The draft guidance consolidates guidance already provided in our recent fees statement.² It also provides new guidance, including about the principles that we consider stakeholders should apply when determining their QWR and the methods that may be used to apportion revenues to relevant parts³ of regulated services in a just and reasonable manner. It also includes a non-exhaustive set of illustrative case studies (included in grey boxes) of how apportionment methods could be applied in hypothetical scenarios.
6. This guidance is intended to be relatively high-level, recognising that providers will need to determine their own QWR taking account of their individual circumstances. Providers may wish to take their own independent advice when deciding whether any of their services are

¹ In the [fees statement](#), we set out our final decision on how the QWR of a provider of a regulated service under the Act should be determined and reflected this decision in draft regulations. These regulations, known as the [Online Safety Act 2023 \(Qualifying Worldwide Revenue\) Regulations 2025 \(QWR Regulations\)](#), have been laid in Parliament. Subject to Parliamentary approval, we expect these to come into force in Q4 2025.

² [Online Safety Fees & Penalties Statement](#), 26 June 2025.

³ To simplify the language in the following discussions, we will be referring to the relevant parts of the regulated services of a provider as 'relevant parts', and to all else, i.e. other parts of those regulated services and the non-regulated services as the 'non-relevant parts'.

regulated under the Act and calculating their QWR. Providers may also wish to consult our online tool⁴ that provides guidance on the application of the Act. Whilst this guidance includes some case studies, these are intended to be illustrative only to help providers understand how to approach the calculation of QWR, and are not intended to set out settled legal or policy views on wider aspects of the online safety regime.

7. This guidance is not legally binding. The QWR Regulations will always take precedence over the guidance in the case of any inconsistency.
8. We expect to update the guidance over time, based on our experience of administering the fees and penalties regime.

Structure

9. This guidance is structured as follows:

- i) Relevant statutory framework;
- ii) Summary of previously published QWR decisions and guidance;
- iii) Guiding principles for QWR calculation;
- iv) Further guidance on revenue apportionment; and.
- v) Other methods we may use to estimate QWR.

Relevant statutory framework

Background

10. The Act requires that Ofcom's operating costs for the online safety regime are recovered through fees imposed on certain providers of regulated services. In particular, providers whose QWR is above a threshold set by the Secretary of State (following advice from Ofcom) and which are not exempt from the duty to pay fees.
11. Under the Act, both Ofcom and the Secretary of State for the Department for Science, Innovation and Technology (DSIT) are responsible for implementing the fees regime. We published a statement (fees statement) setting out our decisions to implement the fees and penalties regime on 26 June 2025.⁵ The fees statement sets out Ofcom's decisions and recommendations on aspects of the fees and penalties regimes.
12. Under the Act, a provider's QWR is used to assess the following:
 - i) **Liability to pay fees:** Where the QWR of a provider is above a threshold⁶ set by the Secretary of State in regulations, they will be required to pay fees, unless otherwise exempt.⁷

⁴ [Check if the Online Safety Act applies to you - Ofcom.](#)

⁵ [Online Safety Fees & Penalties Statement.](#)

⁶ See the section on QWR threshold on page 10 of this document.

⁷ Section 83(2) of the Act.

- ii) **Maximum financial penalties:** Where we find a provider has contravened its obligations under the Act, we have the power to impose a penalty of up to 10% of its QWR or £18 million, whichever is the greater.⁸

The QWR Regulations

- 13. The Act does not define the concept of QWR.
- 14. Ofcom however has the power to make regulations that set out how the QWR of a provider of a regulated service is to be determined (and, for the purposes of fees, to define the ‘qualifying period’ for which providers should calculate their QWR in relation to a given charging year).⁹
- 15. We set out how QWR should be determined in the draft QWR Regulations. The draft QWR Regulations have been laid before Parliament by the Secretary of State¹⁰ and copies are available at legislation.gov.uk. At the time of publication of this consultation, the QWR Regulations remain subject to the Parliamentary approval process.
- 16. The draft QWR Regulations are structured as follows:
 - i) **Part 1** contains general provisions that are relevant to all determinations of QWR (i.e. when calculating QWR for the purposes of fees and penalties, including joint and severally liable penalties);
 - ii) **Part 2** sets out how QWR should be determined for the purposes of fees and when calculating the maximum penalty applicable to the provider of a regulated service; and
 - iii) **Part 3** sets out how QWR should be determined when calculating the maximum penalty in cases of joint and several liability for two or more entities in a group.
- 17. It will be for the providers of regulated services (and group entities, where relevant) to determine their QWR in the first instance in accordance with the QWR Regulations. However, the amount of a provider’s QWR is, in the event of a disagreement between the provider and Ofcom, the amount determined by Ofcom.¹¹

QWR Threshold

- 18. We advised the Secretary of State to set the QWR threshold, which is the QWR at or above which providers of regulated services will be required to pay fees, at £250 million. We consider that any threshold figure within a £200 million to £500 million range is appropriate.

⁸ Paragraph 4 of Schedule 13 to the Act. The financial penalties we impose in any given case will be calculated, not only subject to the maximum penalty requirements in the Act as explained above, but also in line with our [Penalty Guidelines](#). A penalty must be both appropriate and proportionate to the compliance failure or failures in respect of which it is imposed.

⁹ Section 85(1) of the Act and paragraph 5(9) of Schedule 13 to the Act.

¹⁰ These regulations are subject to the ‘affirmative resolution procedure’ meaning before they are made a draft must be approved by a resolution of each House of Parliament.

¹¹ Section 84(3)(a) of the Act and paragraph 4(6) of Schedule 13 to the Act.

The Secretary of State will now decide the final threshold which will apply to the fees regime.¹²

UK Revenues exemption

19. For fee related duties we have decided to exempt providers of regulated services whose UK referable revenue¹³ is less than £10 million. This is subject to the Secretary of State's approval. See the fees statement for more detail.¹⁴

Summary of previously published QWR decisions and relevant guidance

Definitions

20. The QWR Regulations define QWR as the total revenue of a provider referable to the provision of the parts of regulated services anywhere in the world on which the following content may be encountered:¹⁵
- i) Regulated user-generated content;¹⁶
 - ii) Search content;¹⁷ and
 - iii) Regulated provider pornographic content.¹⁸
21. It is outside the scope of this document to provide detailed guidance on all the relevant definitions used in the Act and the QWR Regulations. We focus below on a summary of the more important definitions, but services may wish to consult our website and published materials for further guidance and/or obtain independent legal advice.
22. We have published a guide for services on complying with the Act, which includes an interactive tool to help find out if the rules apply to your service.¹⁹

User-to-user services

23. User-to-user services are internet services that enable users of the service to generate, share or upload content on the service that may be encountered by other users of the service.²⁰ It does not matter what proportion of content on a service is considered user-to-user for the

¹² For more detail, see page 44 of the [Online Safety Fees & Penalties Statement](#).

¹³ The revenues of a provider which may arise anywhere in the world but which arise from the provision of 'relevant parts' of regulated service(s) to UK users (rather than all users).

¹⁴ Page 55 of the [Online Safety Fees & Penalties Statement](#).

¹⁵ 'Encounter' is defined in section 236 of the Act.

¹⁶ 'Regulated user-generated content' is defined in section 55(2) of the Act. It excludes certain types of user-generated content such as emails, SMS messages and comments and reviews on provider content. It can include content generated, uploaded or shared by means of software or an automated tool applied by a user.

¹⁷ 'Search content' is defined in section 57(2) of the Act.

¹⁸ 'Regulated provider pornographic content' is defined in section 79 of the Act.

¹⁹ [Guide for services: complying with the Online Safety Act](#).

²⁰ There are exceptions set out in Schedule 1 to the Act that, if applicable, exempt a service from being a user-to-user service.

overall service to be categorised as a user-to-user service.²¹ The Act also applies to ‘combined services’, which are user-to-user services that include a public search engine.²²

24. For the purposes of the Act, the users of a service do not include persons who work for the provider and any other person providing a business service to the provider.²³ For the purposes of this document, the term ‘user’ is intended to have the same meaning as in the Act.

Search services

25. Search services are internet services which are, or include, a search engine.²⁴ A search engine is a service or functionality that enables users to search more than one website and/or database or, in principle, to search all websites and/or databases.

Services that feature provider pornographic content

26. These are internet services on which pornographic content is published or displayed by the provider of the service. Where a service with provider pornographic content includes a search engine (which allows the user to search more than one website or database) that part of the service would be a search service. Further detail can be found in our guidance on highly effective age assurance and other Part 5 duties.²⁵

The Act applies to services that have links to the UK

27. The online safety regime is international in its reach. The Act covers all three categories of internet services described above that have links with the UK, regardless of where they are based or registered (unless the service as a whole or the relevant part of it is covered by an exemption).²⁶
28. The Act defines a user-to-user service or search service as having links to the UK if it meets any one or more of the following criteria:
- i) Has a significant number of UK users;²⁷ or
 - ii) Has UK users as one of its (or sole) target markets; or
 - iii) Is capable of being used by UK users, and there are reasonable grounds to believe there is a material risk of significant harm to UK users.
29. The Act defines a service including provider pornographic content as having links with the UK if it either has a significant number of UK users, or UK users form one of its target markets or

²¹ Section 3(2) of the Act.

²² Section 4(7) of the Act.

²³ Section 227(3) and (4) of the Act.

²⁴ There are exceptions set out in Schedule 1 to the Act that, if applicable, exempt a service from being a search service.

²⁵ [Guidance on highly effective age assurance and other Part 5 duties](#), 16 January 2025.

²⁶ Section 4(5) - 4(6) of the Act for user-to user or search services, and section 80(2)-80(4) of the Act for service providers that display or publish pornographic content.

²⁷ Section 227(1) of the Act sets out when a user is a UK user.

its only target market. The test about harm to UK users (which applies in relation to U2U and search services) does not apply to these services.

30. Further information on the requirement for a service to have links with the UK can be found on our website.²⁸

Who is the provider of a regulated service?

31. The provider of a user-to-user service is the entity, or individual, that has control over who can use the service.²⁹
32. In the case of a search service, the provider is the entity or individual who has control over the operations of the search engine.³⁰ The provider of a combined service is the entity, or individual, that has control over both who can use the user-to-user part of the service and the operations of the search engine.³¹
33. In the case of services that feature provider pornographic content, the provider of the service will be the entity or individual that has control over which content is published or displayed on the service.³² We provide further guidance on this in our guidance on highly effective age assurance and other Part 5 duties.³³

Purpose of QWR

Importance of QWR to fees

34. The Act provides that fees should be payable by a provider in a particular charging year (i.e. it is a fee-paying year) where:
- i) The provider's QWR for the qualifying period³⁴ that relates to the relevant charging year is equal to or greater than the threshold figure specified by the Secretary of State that has effect for that charging year; and
 - ii) The provider is not exempt under section 83(6) of the Act.³⁵
35. The Act also requires that the fees payable by the provider of a regulated service in respect of a particular charging year should be set by reference to that provider's QWR for the

²⁸ [Guide for services: complying with the Online Safety Act; Overview of regulated services](#); for Services that feature provider pornographic content: [Guidance on highly effective age assurance and other Part 5 duties](#).

²⁹ Section 226(2) and (3) of the Act.

³⁰ Section 226(4) and (5) of the Act.

³¹ Section 226(6) and (7) of the Act.

³² Section 226(8) of the Act. Section 226(9) also clarifies that, if no entity has control over which content is published or displayed on such an internet service, but an individual or individuals have control over which content is published or displayed, the provider of the service is to be treated as being that individual or those individuals.

³³ [Guidance on highly effective age assurance and other Part 5 duties](#), 16 January 2025.

³⁴ Regulation 9 of the [QWR Regulations](#). The qualifying period for fees is the second calendar year preceding the one within which the charging year begins. For example, for a charging year from 1 April 2026 to 31 March 2027, the qualifying period would be 1 January 2024 to 31 December 2024.

³⁵ Section 83(2) of the Act.

qualifying period relating to that charging year (and any other factors Ofcom considers appropriate).

36. To enable us to identify which providers are liable to pay fees, and to calculate the level of those fees, section 83(1) of the Act therefore requires a provider of one or more regulated services to notify Ofcom in the following circumstances:³⁶
- i) The provider's initial fee-paying year (i.e. the first year in which it is eligible to pay fees);
 - ii) Any charging year after its initial fee-charging year where the previous charging year was not a fee-paying year, and the charging year in question is a fee-paying year; and
 - iii) Any charging year after its initial fee-charging year where the previous charging year was a fee-paying year, and the charging year in question is not a fee-paying year.³⁷
37. We may make regulations that specify the evidence, documents or other information providers must supply to Ofcom for relevant QWR notifications, and the way in which these should be supplied.³⁸
38. We may also require a provider of regulated services to provide information about their QWR³⁹ for the purposes of setting fees, using our statutory information gathering powers under sections 100 and 104 of the Act.⁴⁰

Relevance of QWR to penalties

39. QWR is also relevant to the calculation of maximum penalty caps under the Act. In particular:
- i) Where we find a provider has contravened its obligations, we have the power to impose a penalty of up to 10% of its QWR or £18 million (whichever is greater).⁴¹
 - ii) Where a penalty is imposed on a provider and one or more of its group undertakings are found to be jointly and severally liable for the breach, the maximum penalty that may be imposed is the greater of £18 million or 10% of the QWR of the provider and every other entity which is a group undertaking in relation to the provider at the time the relevant notice imposing the penalty is given.⁴²
40. The definition of QWR used for the calculation of fees is also used to calculate the maximum penalty that we can impose when we find a provider in breach of its duties under the Act.⁴³

³⁶ See Table 8.1 on page 94 of the [Online Safety Fees & Penalties Statement](#) for further detail.

³⁷ See section 83(1) of the Act.

³⁸ Section 85(2) of the Act. The [Online Safety 2023 \(Fees Notification\) Regulations 2025](#) were made by Ofcom and laid in Parliament by DSIT on the 26th of June 2025. These regulations are subject to the negative resolution procedure.

³⁹ Further detail will be set out in draft Notification Guidance that we intend to consult on later in Q3 2025.

⁴⁰ See section 100(6)(b) and (d)(i) of the Act in relation to information notices, as well as section 104(1)(a) and (13)(b) of the Act in relation to skilled persons' reports.

⁴¹ Paragraph 4(1) of Schedule 13 to the Act.

⁴² Paragraph 5(3) of Schedule 13 to the Act.

⁴³ Paragraph 4(9) of Schedule 13 of the Act.

However, in the case of joint and several liability, Ofcom has the power to define QWR differently.⁴⁴

41. The Act specifies that the relevant period for assessing QWR in the case of penalties is the most recent accounting period of the provider of the regulated service (or group of entities).⁴⁵ The qualifying period is not relevant in this case.
42. The amount of any penalty is required to be appropriate and proportionate to the failure (or failures) in respect of which it is imposed.⁴⁶ When determining the amount of any actual penalty to be imposed rather than the maximum penalty, we will therefore consider all the circumstances of the case in the round. The factors considered in each case will vary depending on what is relevant. Examples of potentially relevant factors are set out in our Penalty Guidelines, including seriousness, the degree of harm and the timeliness of action to bring a contravention to an end.⁴⁷

Key requirements for QWR calculation

43. In Table A1.1 below⁴⁸ we have summarised the key elements that are relevant for providers of regulated services when they are calculating their QWR. We then expand on these and provide illustrative case studies to help providers understand the approach that they should take in respect of each of these elements. These reflect a summary of previously published guidance and are solely provided for ease of reference.⁴⁹
44. Subsequent sections on guiding principles and further guidance on apportionment are designed to provide a framework to help providers in ensuring that their QWR calculation appropriately follows these requirements, and that it is fit for purpose as a whole.

⁴⁴ Paragraph 5(9) of Schedule 13 to the Act.

⁴⁵ Paragraph 4(1)(b) of Schedule 13 of the Act; For the relevant provision on joint and several liability, see paragraph 5(4).

⁴⁶ Paragraph 2(4) of Schedule 13 to the Act.

⁴⁷ See our [Penalty Guidelines](#).

⁴⁸ Page 15 of the [Online Safety Fees & Penalties Statement](#).

⁴⁹ Our [Online Safety - Fees and Penalties Consultation](#) ran from 24 October 2024 to 9 January 2025 and culminated with the publication of our [Online Safety Fees & Penalties Statement](#) on 26 June 2025. We are not re-consulting on decisions made in the statement which are now reflected in QWR Regulations passing through Parliament.

Table A1.1: Summary of QWR calculation elements

QWR calculation element	Summary of approach
i. Types of revenue referable to a regulated service	Total amount of revenue the provider receives that is referable to those parts of its regulated service(s) on which regulated user generated content, search content and regulated provider pornographic content may be encountered by users. We refer to such parts as the 'relevant parts'.
ii. Which geographic revenues are to be brought into account	Worldwide referable revenues.
iii. The treatment of revenues arising from two or more regulated services	Provider QWR includes referable revenues for all regulated services from that provider (i.e. aggregated) rather than a subset of those services.
iv. Inclusion of revenues received by other group undertakings	Referable revenues which are received by other group undertakings must be included in QWR.
v. Apportionment of revenues to regulated services	Where revenues referable to the relevant parts cannot be separately identified from revenues referable to the non-relevant parts, i.e. other parts of regulated services or non-regulated services, providers should apportion revenues using a just and reasonable method.
vi. Approach to currency conversion	Revenue must be converted to GBP using a just and reasonable exchange rate.
vii. Period for assessing QWR for fees and penalties	The qualifying period for fees is the second calendar year preceding the one within which the charging year begins, i.e. the calendar year two years prior to the calendar year within which the charging year begins. For example, for the charging year running from 1st April 2026 to 31st March 2027, the qualifying period would be 1st January 2024 to 31st December 2024. For penalties, the Act specifies that the relevant period for assessing QWR is the most recent complete accounting period of the provider of the regulated service.⁵⁰

⁵⁰ Paragraph 4(1) of Schedule 13 to the Act.

Types of revenue referable to a regulated service

45. All revenue arising in connection with the provision of relevant parts of regulated services (the referable revenue) should be included in QWR.⁵¹
46. As far as reasonably practicable, amounts of revenue brought into the QWR calculation must conform to applicable accounting standards such as UK GAAP, US GAAP or IFRS.⁵²
47. Accordingly, providers must include in QWR, amounts that they would account for as revenue in the ordinary course of business. This could include revenue such as advertising, subscription fees, sponsorships, subscriptions, one-off payments, commissions, donations, business to business (B2B) revenues, grants and payment processing fees.
48. Where revenue is not directly associated with relevant parts of regulated services (i.e. revenue covers relevant and non-relevant parts and /or regulated and non-regulated services), it should be apportioned so that only relevant revenue counts towards QWR. We expand on this concept in the Guiding principles (page 15) and Additional Apportionment Guidance (page 18) sections.
49. Providers should exclude items that they do not routinely report as revenue in their financial statements, such as sales taxes and VAT.
50. In the ordinary course of business, providers may recognise revenue on either a gross or net basis (i.e. before or after deducting commissions paid). The treatment often depends on the nature of the customer relationship, among other things. The provider should treat the revenue amounts to be included in the QWR calculation on a gross or net basis depending on how the provider recognises these amounts in the ordinary course of business and in its financial statements.
51. Providers should bring all revenue into account, including small 'de minimis' amounts of revenue. However, as we explain below, we expect providers to take a proportionate approach to dealing with relatively small amounts of revenues (e.g. revenues associated with some ancillary features). We also do not expect providers to include revenues referable to a service or functionality which is not available to UK users.

Case study 1: Online retailer offering a user-to-user marketplace

Consider a large online retailer, with a significant number of UK users. Their service comprises their own non-regulated online retail business⁵³ and a regulated user-to-

⁵¹ Regulation 4 of the QWR Regulations. See also, page 18 of the [Online Safety Fees & Penalties Statement](#).

⁵² Regulation 5(2) and Regulation 3 of the [QWR Regulations](#) define applicable accounting standards in the same way as the Finance Act 2020. We expect in most cases the revenue providers bring into account will conform to applicable accounting standards, but we have added the text 'as far as reasonably practicable' to allow for the possibility that providers could source some revenue data from internal systems that do not fully conform with applicable accounting standards. Where this is the case, we would expect providers to explain this in their notification.

⁵³ Provider content is not classed as user-to-user content, see Section 55 of the Act.

user marketplace. In this scenario the marketplace would be the relevant part and only revenues associated with this component of the service would count towards QWR.⁵⁴

Which geographic revenues are to be brought into account

52. QWR is defined as the worldwide revenues referable to the relevant parts of regulated services.⁵⁵ The provider must therefore aggregate all the worldwide revenues that are referable to the relevant parts of regulated services.

Case study 2: Global social media service with multiple revenue streams

Consider a global social media service which has users all around the world including a significant number in the UK, all of whom access and use the same service. In this example, the service is a regulated user-to-user service. The provider earns revenues from advertising on the service and from licensing data gathered via the service to marketers, researchers, etc. The provider should include in its QWR all of the advertising and licensing revenues attributable to the service from all around the world.

Case study 3: Global provider offering geographically distinct services

Consider a global provider that operates multiple services, some of which are regulated services as they have links to the UK,⁵⁶ and some of which are not.⁵⁷ The provider earns revenues from advertising on the services and licensing data gathered via the services to marketers, researchers etc. The provider should include in its QWR worldwide advertising and licensing revenues referable to only its regulated services i.e. those with UK links. This includes revenues from advertising on its regulated services to both UK and any non-UK users, and licensing data gathered from both UK and any non-UK users on those services.

Where revenue is not directly attributable to its regulated services (e.g. where revenues are accounted for in aggregate across all services on a global basis) a provider must apportion revenue between the regulated and non-regulated services with only revenue referable to its regulated services counting towards QWR.

The case study above considers a global provider that operates multiple (distinct) services. However, providers should carefully consider in each case whether their services constitute a single service or multiple services. It may be the case that a service that is available in multiple jurisdictions should be considered as a single service (rather than as comprising multiple geographically distinct services). In such a case, the

⁵⁴ We do not expect providers to include revenues referable to a service or functionality which is not available to UK users. See paragraph 3.36, page 19 of the [Online Safety Fees & Penalties Statement](#).

⁵⁵ Regulation 4 of the [QWR Regulations](#). See also, page 24 of the [Online Safety Fees & Penalties Statement](#).

⁵⁶ See from paragraph 26 above for more detail on the 'UK links' test. As noted there, the Act is international in its reach. An internet service may have links to the UK even if a significant number of users are not UK users, or the UK is not its target market.

⁵⁷ As opposed to a single global service, which if UK linked, would be considered a single regulated service.

provider would need to allocate all worldwide revenues from the relevant parts of that service towards its QWR.

The treatment of revenues arising from two or more regulated services

53. A provider's QWR should include the referable revenues arising from all the relevant parts of all of the regulated services it provides.⁵⁸

Case study 4: Provider of multiple user-to-user services

Consider a provider that runs both a social media service and a file sharing service, both of which are regulated user-to-user services because they have links to the UK. The social media service generates £200 million of referable revenues, and the file sharing service generates £150 million of referable revenues during the qualifying period.

The provider's QWR is therefore the aggregation of these two referable revenue items, i.e. it is £350 million during the qualifying period. This single combined figure is the provider's QWR.

Inclusion of revenues received by other group undertakings

54. QWR should include referable revenues which are received by other group undertakings.⁵⁹ Where a provider is a member of a group and another group undertaking receives any revenues referable to the relevant parts of that provider's regulated service(s), then those referable revenues must be included in the provider's QWR.
55. An undertaking may be a company, a partnership or an unincorporated association carrying on a trade or business with or without a view to profit.⁶⁰ A 'group' means a parent undertaking and its subsidiary undertakings.^{61,62}

Case study 5: Global service provider with national subsidiaries

Consider a global search engine provider which earns large revenues from advertising on its regulated search service, with advertisers bidding to display brief advertisements, service offerings, product listings, and videos to users of the search engine. The provider offers the advertising service in conjunction with its search engine on a worldwide basis. For administrative, accounting and tax purposes, the provider has a number of subsidiary companies in different geographic locations for business development and sales. This means that in practice, whilst an advertiser or their intermediary will place their advertising requirements via the provider's platform,

⁵⁸ Regulation 7 of the [QWR Regulations](#). See also, page 31 of the [Online Safety Fees & Penalties Statement](#).

⁵⁹ Regulation 8 of [QWR Regulations](#). See also, page 40 of the [Online Safety Fees & Penalties Statement](#).

⁶⁰ See section [1161\(1\) of the Companies Act 2006](#).

⁶¹ The expressions 'undertaking', 'parent undertaking' and 'subsidiary undertaking' are defined in sections [1161](#) and [1162 of the Companies Act 2006](#).

⁶² See section [1161\(5\) of the Companies Act 2006](#). See also [section 1162 of the Companies Act 2006](#) which explains the circumstances in which a company will be considered a parent undertaking or member of another undertaking.

other aspects such as post-advertising evaluation, finance and billing are undertaken by a number of separate subsidiaries incorporated in different countries.

In its determination of QWR, the provider should include all the revenues referable to its regulated search service. Therefore, regardless of which group undertaking receives the revenues in question (and the country in which that undertaking is incorporated or formed), they should be included in the determination of the provider's QWR.

56. Where an entity is a group undertaking in relation to a provider for part (not all) of a qualifying or relevant period,⁶³ only amounts relating to the part of the period for which the entity was a group undertaking should be brought into account in determining the entity's QWR.
57. The provider of a regulated service may become part of a group during a qualifying or relevant period or be divested from a group during a qualifying or relevant period. In those circumstances, the provider would need to calculate its QWR taking account of any such organisational changes. The provider should take account of only the revenues received by members of its group during the part of the period where it is a member of that group.

Apportionment of revenues to regulated services

58. The QWR Regulations provide that revenues of a service should only be taken into account when they arise in connection with the provision of the relevant parts of a regulated service. Where revenues comprise amounts arising partly in connection with the provision of relevant parts of a regulated service and partly in connection with other things, providers are required to apportion revenues on a just and reasonable basis.⁶⁴
59. This means that where revenue arising in connection with relevant parts of regulated services cannot be separately identified from revenue arising in connection with other parts of those regulated services (or non-regulated services), providers should apportion revenues using a just and reasonable approach.
60. Some providers may be able to identify certain revenue streams as wholly referable to the relevant parts of their regulated services. A simple example of such a case is where the relevant parts represent all the regulated services and the provider does not provide any other services. In such cases, the QWR could be equal to the total revenues of the provider and no apportionment would be necessary.
61. Other providers may have to undertake an apportionment exercise, for example where the relevant parts represent a proportion of the regulated service, or where the provider provides other non-regulated services where revenues arise in connection with both the regulated and non-regulated services.

⁶³ Section 85(5) of the Act and Regulations 8(3) and 10(5) of the [QWR Regulations](#).

⁶⁴ Regulation 4 of [QWR Regulations](#). See also, page 37 of the [Online Safety Fees & Penalties Statement](#).

Approach to currency conversion

62. Providers must convert revenue to GBP using a just and reasonable exchange rate.⁶⁵
63. In most cases, we expect this will mean using an average exchange rate over the qualifying period or relevant period from a source such as a central bank, such as the Bank of England.⁶⁶ For example, a provider might calculate the amount relevant for determining QWR for a qualifying period is \$300 million (USD). If the average USD to pound sterling (GBP) exchange rate for that period is 0.75, the provider's QWR in pound sterling would be £225 million.
64. We have not specified a particular source for the exchange rate to be used as it might not be the case that any one given source would be appropriate to cover the range of circumstances where currency conversions might need to be made. For example, the Bank of England does not publish exchange rates for all currencies.

Period for assessing QWR for fees and penalties

Table A1.2: Qualifying period to determine QWR for fees and the relevant period for penalties

Regime	Period
Fees	The qualifying period for a charging year is the second calendar year preceding the one within which the charging year begins, i.e. the calendar year two years prior to the calendar year within which the charging year begins. For example, the charging year running from 1st April 2026 to 31st March 2027, the qualifying period would be 1 st January 2024 to 31st December 2024.
Penalties	The Act specifies that, in relation to maximum penalties, the relevant period for assessing QWR is the most recent complete accounting period of the provider of the regulated service. ⁶⁷

65. Some providers may have revenue data available on a calendar year, monthly or quarterly basis which would allow them to calculate the QWR directly for the qualifying period. Other providers may need to apply a reasonable way of apportioning the revenues to the qualifying period. For example, where a provider's accounting period does not align with a calendar year, it could pro-rate revenue data to estimate revenues for the qualifying period.

Determining UK referable revenues

66. According to the proposed section 83(6) exemption (subject to approval by the Secretary of State), a provider of a regulated service shall be exempt for the purposes of section 83 (duty

⁶⁵ Regulation 5(3) of [QWR Regulations](#). See also, page 41 of the [Online Safety Fees & Penalties Statement](#).

⁶⁶ Exchange rates published by the Bank of England are available here: [Exchange Rates](#).

⁶⁷ Paragraph 4(1)(b) of Schedule 13 to the Act; For the relevant provision on joint and several liability, see paragraph 5(4) of Schedule 13 to the Act.

to notify) and section 84 (duty to pay fees) of the Act where that provider's UK referable revenue is less than £10 million in a qualifying period. If a provider considers that it could benefit from this exemption, then it will need to calculate its UK referable revenues to satisfy itself⁶⁸ that it is indeed less than £10 million.

67. UK referable revenues are revenues that arise in connection with the provision of the relevant parts of regulated services to UK users. Apart from this, all the requirements and guidance with regard to the calculation of a provider's QWR also apply to the determination of the UK referable revenues. In particular, the following applies when calculating UK referable revenue:

- i) Where a provider has two or more regulated services, UK referable revenues for each regulated service should be aggregated.
- ii) Where group undertakings receive UK referable revenues in respect of any of the providers' regulated services, these should be included.
- iii) Where it is not possible to separately identify revenues arising in connection with the provision of the relevant parts and revenues arising in connection with the non-relevant parts, such revenues should be apportioned on a just and reasonable basis.
- iv) As far as practicable, amounts brought into account must conform to applicable accounting standards (as defined in the QWR Regulations).
- v) Where UK referable revenues are received in a currency other than pound sterling, these should be converted into pound sterling using a just and reasonable exchange rate.
- vi) The period over which the provider's UK referable revenue must be calculated is the qualifying period.

68. We provide further guidance on how UK referable revenues should be apportioned in the sections below.

Guiding principles for QWR calculation

69. Providers should follow our proposed guiding principles set out in Table A1.3 below in their QWR calculation. The guiding principles are intended to provide a framework to help providers ensure that their QWR calculation meets the requirements of the QWR and Notification Regulations. The guiding principles are also intended to help providers assess the available apportionment methods and select methods that are just and reasonable.⁶⁹ These methods are used to apportion revenues, where necessary, to the relevant parts of a regulated service.

⁶⁸ A provider who qualifies for the UK revenue exemption is exempt from the duty to notify and duty to pay fees. Ofcom might seek to understand and confirm a provider's eligibility for fees (e.g. through the use of the information gathering powers). As such, providers who rely on the UK revenue exemption should be prepared to justify and demonstrate why they benefit from the UK referable revenue.

⁶⁹ We use similar principles in our regulatory accounting guidelines for our regulation of telecoms and post. Providers in these sectors, such as [BT](#) and [Royal Mail](#), are required to follow these principles when preparing their regulatory financial statements.

Table A1.3: Guiding principles

Principle	Description
Completeness	In calculating QWR, all of a provider's revenue streams (including any revenues referable to the relevant parts of regulated services that are accounted for by other group undertakings) should be considered, and where necessary apportioned to the relevant parts, to ensure that worldwide revenues referable to all the relevant parts of all the regulated services in the relevant period are included in the QWR.
Accuracy	The QWR calculation and its underlying financial and operational data should be free from material errors.
Causality	Revenues to be included in QWR should be attributed and where necessary apportioned to the relevant parts of a regulated service, as far as possible, based on the relative contribution of the relevant parts vs the non-relevant parts to the revenue in question.
Objectivity	The QWR calculation should take account, as far as practicable, of all available relevant financial and operational data. Where the QWR calculation is based on assumptions, those assumptions should be justified and supported, as far as possible, by all available relevant data. The assumptions should not be formulated in a manner which unjustly benefits the provider.
Consistency	The QWR calculation should, as far as possible and relevant, apply consistent methodologies to calculate worldwide revenues referable to all the relevant parts of all the regulated services. The QWR calculation should also ensure that any differences in these methodologies and/or changes from one period to another are appropriate in light of the other principles mentioned above.
Transparency	The QWR calculation, the data, assumptions, and methodologies used by the providers to calculate QWR should be made sufficiently transparent in their submissions such that we are able to adequately consider, understand and verify the calculation.

70. There is no prescribed hierarchy or prioritisation in the guiding principles. All relevant principles should be considered and weighed carefully in the round for each element of the QWR calculation.⁷⁰ We recognise that in some cases, there may be tension between some of the guiding principles. We expect providers to resolve these based on their own specific circumstances and in a reasonable manner. For example, providers may need to consider how to balance the principles of causality and objectivity on the one hand and the principle

⁷⁰ We note that the transparency principle will apply to all QWR calculations as a baseline consideration.

of consistency on the other, when new sources of data over time may justify changing elements of the QWR calculation.

71. We expect providers' level of consideration and work on the elements of the QWR calculation to be proportionate to the materiality of those elements in the context of the QWR calculation as a whole. In particular, while all revenues (even small amounts) that are referable to the relevant parts of the regulated services should be included in the QWR, we expect providers to take a proportionate approach to dealing with the apportionment of relatively small amounts of revenues (e.g. revenues associated with some ancillary features). Furthermore, where a provider identifies multiple categories of revenue to be apportioned to the relevant parts of a regulated service, it may be proportionate to adopt a single method to apportion these revenues rather than a separate method for each category of revenue. The decision as to which approach is proportionate will depend on the specific circumstances of each provider and the quality of information available to them.
72. The completeness and accuracy principles are specifically enshrined in our requirements. We require providers to include a declaration alongside their fee-paying notification (signed by a senior manager) which confirms that, to the best of the knowledge and belief of the declarator, the evidence provided pursuant to the notification is accurate and complete in all material respects.⁷¹
73. The key purpose of the causality principle is to help ensure revenues are apportioned in the QWR calculation based on the relative contribution of the relevant parts vs the non-relevant parts to the revenue in question. This could be achieved if the apportionment is based on the value, or the usage or the costs, or some other appropriate metric of the business activities that cause the revenues to be earned.
74. We recognise that providers may need to exercise their own judgement in their QWR calculation, in particular with regard to apportionment. The objectivity principle means that the QWR calculation should take account of all available relevant financial and operational data.
75. The consistency principle should be applied with specific attention to certain other principles. Any differences in apportionment methods applied to similar revenue streams and any changes in the apportionment of the same revenue stream from one year to another, should be explained and justified with references to other relevant principles. For example, such differences or changes would likely only be considered just and reasonable, if they were to result in a more accurate or objective or causal assessment of QWR.
76. We require in the QWR Regulations that the revenues used in the QWR calculation are quantified, as far as practicable, in compliance with the applicable accounting standards.⁷² We also expect that any other financial data the providers use in the QWR calculation to be

⁷¹ Regulation 3(2)(c) of the [Notification Regulations](#); Annex 5.1 of the [Manner of Notification document](#) annexed to the [Online Safety Fees and Penalties Statement](#).

⁷² Regulation 5(2) of the [QWR Regulations](#).

prepared, as far as practicable, in compliance with these accounting standards, with the exception of any specific departures set out in the Act or any guidance that we provide.

Question 1:

Do you have any comments on the proposed guiding principles? Do you consider these guiding principles to be appropriate and sufficient to guide calculation (and verification) of QWR?

If not, what changes or additions would you recommend and why?

Where applicable, please provide evidence to support your responses.

Further guidance on apportionment

77. By way of reminder, QWR for the purposes of online safety fees is defined as the total revenue of a provider that is referable to its regulated service(s). This includes revenues referable to its regulated service anywhere in the world. However, an amount of revenue counts as referable to a regulated service only if it arises in connection with the provision of parts of the regulated service where regulated user-generated content, search content, and/or regulated provider pornographic content may be encountered.
78. As we explain above, some providers may be able to identify certain revenue streams that arise only in connection with the provision of relevant parts of regulated services. A simple example of such a case of direct attribution is where the relevant parts represent all of the regulated services and the provider does not provide any other (non-regulated) services. In such cases, the QWR would be equal to the total revenues of the provider and no apportionment will be necessary.
79. Other providers may not be able to do a direct attribution, but will have to undertake an apportionment exercise, for example where the relevant parts on which, e.g. user-generated content may be encountered represent a proportion of the regulated service, or where the provider provides other non-regulated services where revenues arise in connection with both the regulated and non-regulated services.
80. Where apportionment is required, there are likely to be a number of methods that could be applied. As we explained in the fees statement,⁷³ we do not consider it appropriate or practicable for us to prescribe exactly how providers should apportion revenues to the relevant parts of regulated services, particularly given the differences between providers. These include differences in the commercial and operational nature of the relevant parts of regulated services, how the regulated services are monetised, the relative contribution of the relevant parts to the revenue streams, and the type and quality of financial and operational data available to the provider which could be used as a basis for apportionment.

⁷³ Page 37 of the [Online Safety Fees & Penalties Statement](#).

81. Given the above, our position is that providers should have the flexibility to apply just and reasonable apportionment methods that take account of their specific circumstances. However, we see benefit in providing further guidance to help providers to adopt a just and reasonable apportionment method.
82. In Table A1.3 above, we provide a set of guiding principles to which providers should have regard in carrying out any apportionment needed for their QWR calculation. Below, we set out a non-exhaustive list of possible apportionment methods that providers could use, depending on their specific circumstances. We also set out below some examples to illustrate how providers may apply the guiding principles to select a just and reasonable apportionment method and how they may apply that method in practice.
83. Following on from our guidance on all aspects of QWR calculation above, here we assume that providers have already identified the relevant parts of their regulated services but would benefit from this further guidance in considering how to complete the calculation of the QWR.

Apportionment methods

84. There are circumstances in which the revenues referable to the relevant parts of the regulated services cannot be separately or readily identified from the revenues arising in connection with other parts of those regulated services, and/or the revenues arising in connection with non-regulated services. In such circumstances, direct attribution is not possible and providers should apportion revenues to the relevant parts using a just and reasonable approach.
85. Table A1.4 sets out some examples of possible apportionment methods. This table is not intended to be exhaustive, but we consider that these methods may apply in a large number of circumstances. The order these methods are set out in the table below represents what we broadly expect that providers will follow in considering and selecting a just and reasonable method, i.e. if suitable data is available, an apportionment based on usage would likely be preferable to one based on costs. However, we recognise that providers will have different business models and data available on which to base apportionment which could justify selecting one method over another that differs from the order set out in Table 1.4. For example, for some providers, the apportionment may best be done using value-based or willingness-to-pay methods.
86. The choice of the apportionment method and how it is applied, including the use of data and assumptions for the application, should all be done in line with the guiding principles we have set out in the preceding section.
87. These methods all work by providing a basis to apportion total revenues earned from a combination of relevant and non-relevant parts to the relevant parts. These methods could be just and reasonable, if the basis used accurately reflects the relative contributions of the relevant parts and non-relevant parts, drawing on relevant financial and operational data (see the accuracy, causality and objectivity principles set out above).
88. In some cases, more than one method may be considered just and reasonable. In such cases, providers may choose one of these methods or apply more than one of these methods to

derive a range of proportions that could be used, and then exercise judgement in deciding what exact proportions should be used for the apportionment in question.

Table A1.4: Examples of apportionment methods

Method	Description	Key limitations and challenges
Usage-based	Based on the proportion of usage or engagement by users on relevant parts vs non-relevant parts, e.g. time spent, data transferred, pages viewed, advertising impressions, clicks.	• Requires a reliable split of the chosen usage metric on relevant parts vs non-relevant parts. • Relevant parts may make a different contribution per unit of usage to revenue generation, compared with non-relevant parts; or different types of users may make different contributions per unit of usage. In such cases, weighing the usage of each equally may not be reasonable.
Advertising-based	Based on the proportion of advertising revenue referable to relevant parts vs non-relevant parts.	• Requires a reliable split of advertising revenue between relevant parts vs non-relevant parts. • Some providers may be able to directly identify advertising revenue associated with the relevant parts, while others may need to apportion advertising revenue to the relevant parts based on metrics which drive advertising revenue such as page impressions or clicks.
Cost-based	Based on the proportion of costs incurred by the provider on relevant parts vs non-relevant parts.	• Costs may not reflect the relative contribution of the relevant parts to revenue generation as some services could have significantly higher return on costs. • Need to have reliable cost data split between the relevant and non-relevant parts.
Existing apportionments	Based on the results of apportionment method(s) or direct attributions that have already been used for other revenue streams as part of the same QWR calculation for the same period.	• Could only be used when at least one other revenue stream has been directly attributed or apportioned to the relevant parts. • Where more than one revenue stream has previously been apportioned to a relevant part using different apportionment methods, then judgement should be exercised in deciding which one is just and reasonable, or whether some type of

		combined approach may be just and reasonable.
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Usage-based

89. The usage-based method could be a just and reasonable method if some metric of usage reflects the relative contribution of the relevant parts vs non-relevant parts (see the causality principle). Usage metrics could include, among other things, users' time spent, volume of data processed and/or transferred, traffic (e.g. visits, clicks, pages viewed), transaction volumes or values, and impressions (i.e. number of times content or ads are shown). They could also include operational and/or commercial surveys on service use.
90. The provider needs to possess accurate data for the chosen usage metric for both relevant and non-relevant parts, and to objectively select a usage metric to use in the apportionment (see the accuracy and objectivity principles).
91. One potential challenge for the usage-based method is that in some cases the contribution of the relevant parts per unit of usage (e.g. per unit of time spent by users) may be different from the unit contribution of the non-relevant parts. In some cases, the relative contributions of different types of users may be different. This issue may arise when apportioning advertising revenues using usage metrics where the value associated with impressions or clicks (driven by the price plan for advertising) may not be the same between the relevant and non-relevant parts or different types of users, e.g. where advertising impressions on different part of the service attract different prices.
92. In such cases, the provider may need to consider adding different weights to the unit of usage for these parts or different types of users. Alternatively, the provider may consider that another usage metric or another apportionment method would be a more just and reasonable approach.

Case study 6: File sharing service bundled with other non-regulated components

An example of a case where the usage-based method may be just and reasonable is a provider of a regulated file sharing service bundled with other non-regulated components. The file sharing service is the relevant part, and all other components are non-relevant parts. The provider earns revenues from subscription fees that allow users to access the whole bundle. There are no advertising revenues.

The QWR should be calculated by apportioning the subscription revenues to the file sharing service on a just and reasonable basis. The provider has accurate data on relative user time and data transferred for the file sharing service vs other non-relevant components. It could decide to apportion subscription revenue using relative volumes of data transferred. The provider could adopt this approach if it considers that the volume of data transferred reflects the relative contribution of the various components to the subscription revenues (see the causality principle). This may be reasonable, for example, where the other non-regulated components are also data-intensive (as the file sharing service is). However, if the other components are not data-intensive, the provider may consider that relative user time spent on different services would better

reflect the relative contribution of each component to subscription revenues as it measures what subscribers are using the service for.

If the provider considers that there is no such usage metric that meets the above criteria, then it could use other methods, e.g. the cost-based method which we explain further below.

Case study 7: Online marketplace

Another example is an online marketplace with links to the UK which enables both the provider itself to list and sell items, and users to list and sell their own items (with the listings posted by users constituting regulated user-generated content). It also enables users to directly communicate via a messaging functionality with other users and the provider to ask and answer questions and where applicable, negotiate prices and terms.

The provider earns revenues from the services it provides on each transaction (both provider-to-user and user-to-user transactions) such as listing, handling, shipping, and where applicable currency conversion. We refer to these as transaction fees. It also earns revenues from advertising and promoting users' items on the user-to-user part of the marketplace. Finally, it earns revenues from subscriptions that allow users to have premium access with benefits such as no fees or discounted fees for listing, delivery, etc.

In this example, the user-to-user part of the messaging functionality is a relevant part. The part of the service that enables users to list and sell items to other users is also a relevant part. All other parts of the service are not relevant parts, e.g. those that enable the provider to list and sell its own items.

The messaging functionality is key to the transactions between the users being finalised, but it is also used by the users to communicate with the provider, e.g. ask questions and leave reviews.

The QWR should therefore be calculated as follows:

- i) User-to-user transaction fee revenues from listing, handling, shipping, and where applicable currency conversion; and
- ii) Revenues from advertising users' items; and
- iii) Premium access subscription revenues apportioned to user-to-user transactions.

User-to-user transaction fee revenues are expected to be directly identifiable, because they relate to a specific type of transactions. The advertising revenues are all from advertising users' items on the user-to-user part of the marketplace. There is no advertising on items listed by the provider. The advertising revenues should therefore all be included in the QWR. This means no apportionment is likely to be needed to quantify these two revenue streams.

The premium access subscription would need to be apportioned between those parts of the marketplace that enable user-to-user transactions and provider-to-user transactions.

The provider could apply the usage-based method to apportion the subscription revenues. It should use a usage metric that reflects the relative contributions of user-to-user and provider-to-user transactions (see the causality principle). For example, the metric could be, among other things, total volume of transactions (e.g. simply the number of user-to-user transactions vs provider-to-user transactions) or total value of transactions (e.g. sales proceeds received by selling users' items vs sales proceeds received by the provider from selling items). The usage metric chosen should be the one that reflects the relative contributions of the services that enable user-to-user and provider-to-user transactions. Additionally, the provider should ensure that it uses reliable data to measure its chosen usage metric (see the accuracy and objectivity principles).

Advertising-based

93. For many providers, advertising revenue is likely to be one of the largest sources of revenue. Where advertising revenue can be directly attributed or apportioned to the relevant parts (for example using the usage-based approach), then the proportion of the advertising revenue directly attributed or apportioned to the relevant parts could also form the basis on which to apportion other categories of revenue (the advertising-based method).
94. This could be appropriate, for example, where the proportion of advertising revenue apportioned to the relevant parts provides a reasonable estimate of the relative contribution of those relevant parts to other categories of revenue (e.g. subscription) (see the causality principle). It may also be a proportionate approach where advertising revenue represents a significant proportion of the total revenue for a service and other categories of revenue that need to be apportioned are relatively small.

Case study 8: Music content provider

An example of a case where the advertising-based method may be just and reasonable is a provider of a service featuring music content (which is not regulated user-generated content) together with a user-to-user chat functionality for users to discuss, critique and share the music content. In this example, the chat functionality enables users to encounter regulated user-generated content and is therefore a relevant part; the part on which music content is made available is not a relevant part.

The provider earns revenues from subscriptions, which give access to both the music content and the chat functionality. It also earns revenues from advertising displayed on both the music content part and the chat functionality, which it records separately and accurately.

The QWR should be calculated as follows:

- i) Revenues from advertising displayed in the chat functionality; and
- ii) Subscription revenues apportioned to the chat functionality.

The subscription revenues could be apportioned to the chat functionality using the usage-based method, if there is a reliable usage metric available that reflects the relative contribution of the chat functionality to subscription revenues (see causality, objectivity and accuracy principles). For example, the provider may use the time spent by users on the chat functionality as opposed to the music content. The volume of data processed and/or transferred may not be reflective of relative contributions as the music content is by nature considerably more data-intensive.

If no such reliable usage metric exists, then the advertising-based method could be an option, if the provider considers that the advertising revenues adequately reflect the relative contribution of the chat functionality to subscription revenues (see the causality principle). To do this, the provider needs to have a reliable split of advertising revenues between the chat functionality and the music content part, through direct attribution or another apportionment (see the objectivity and accuracy principles).

The subscription revenues may then be apportioned using the proportion of the advertising revenues associated with the chat functionality vs the music content part.

- 95. The advertising-based method would not be applicable in cases where providers have no advertising revenues.
- 96. This method would not be a just and reasonable method if the provider does not have a reliable split of advertising revenues between relevant and non-relevant parts (see the accuracy and objectivity principles).
- 97. The advertising-based method may also not be just and reasonable if the proportion of advertising revenue is insignificant in comparison to other revenues that are to be apportioned, as it may not reflect the relative contribution of the relevant parts to other categories of revenue (see the causality principle).

Cost-based

- 98. A cost-based approach may be appropriate when the usage-based, advertising-based or other methods using usage metrics are unavailable or are unreliable as a basis for apportionment. While in some cases a cost-based method could reflect the relative contribution of relevant parts to the revenue in question (e.g. where pricing is cost-based or closely related to costs), in general we expect the cost-based method will only be used where other methods are not available.
- 99. A provider considering a cost-based approach will need cost data on the relevant parts and the non-relevant parts (see accuracy and objectivity principles). The granularity and quality of the cost data available on the relevant parts could vary significantly between providers. Some providers may have detailed cost information on the relevant parts and non-relevant parts, including cost splits between direct and indirect costs. Others may only have partial

cost data, e.g. the costs of maintaining the relevant and non-relevant parts, or the costs of developing those parts.

100. Where providers have a variety of cost information available on the relevant vs relevant parts, they should consider which costs would reflect the relative contribution of the relevant parts to the revenue in question (see the causality principle).
101. In general, we would expect operating costs to provide a more appropriate basis for revenue apportionment than capital costs. Operating costs are the costs incurred for the day-to-day running of the business, e.g. staff, platform and equipment maintenance, content management, marketing, customer services, and legal and compliance costs. Capital costs are the amounts spent for long-term use (including set-up costs at the start), e.g. costs of designing and developing apps, costs of purchasing and updating servers and network equipment, data centres, and cloud infrastructure, and costs of purchasing physical facilities and buildings.
102. Operating costs and revenues both arise from the day-to-day business operations. The operating costs often also include the amortisation or depreciation charge of capital costs on an annual basis. This means they are a more comprehensive measure of costs as an apportionment basis. All of this could indicate that operating costs would provide a more appropriate basis for revenue apportionment than capital costs.
103. Further, direct operating costs may be more appropriate to use where these are closely linked to the delivery of the relevant parts vs non-relevant parts. However, total operating costs, including indirect and/or a share of common costs, may be more appropriate where it is reasonable to assume that indirect costs, such as marketing costs, drive revenues, or where the relevant and non-relevant parts share significant infrastructure or support costs (i.e. common costs).

Case study 9: Hardware device provider

An example of a case where the cost-based method may be just and reasonable is a provider of hardware devices such as smartphones, tablets or computers. The devices have an integrated user-to-user communication app which enables users to share regulated user-generated content (including messaging or audio and video content), together with other standard apps and the operating system software.

In this example, the user-to-user communication app is the relevant part, and all other services (including the provision of the device and its accessories and any other integrated apps on the device) are not relevant.

The provider earns revenues from devices sales, subscriptions for the premium features on the user-to-user communication app, and sales of consumer data collected from the user-to-user communication app. There are no advertising revenues on the user-to-user communication app.

The QWR should be calculated as follows:

- i) Subscription fees for the premium features on the user-to-user communication app (to be included in full); and
- ii) Sales of consumer data collected from the user-to-user communication app (to be included in full); and
- iii) Device sales revenues apportioned to the user-to-user communication app.

Subscription fees and sales of consumer data can both be directly attributed to the user-to-user communication app but the provider should consider how to apportion the device sales revenue.

The provider may be able to utilise users' time as a metric for apportioning device sales revenue. In this case, the provider could apply the usage-based method and use as the usage metric the proportion of the users' time on the user-to-user communication app vs all other apps as the basis for apportionment. This approach is just and reasonable if users' time reflects the relative contribution of the user-to-user communication app vs all other benefits of the device, including all other integrated apps (see the causality principle).

If a suitable usage metric is not available, the provider may consider using the cost-based method. Under this method, the provider could apportion the device sales revenues using the costs of providing the user-to-user communication app vs the costs of manufacturing the device plus the costs of providing all the other integrated apps on it. As explained above, the provider may consider the costs used in apportionment should be operating costs (which may include amortisation or depreciation charges for capital costs such as app and device development and design). The provider should apply this method if the necessary cost information is available and is reliable (see the objectivity and accuracy principles).

Finally, if the provider has evidence to suggest that the revenues from device sales would not be materially affected by whether or not the user-to-user communication app is provided on the device, then it could be proportionate for the provider not to include any portion of the device sales revenues in their QWR.

Existing apportionments

104. This method could be applied in cases where one or more revenue streams have already been directly attributed or have already been apportioned using just and reasonable methods, but there still remain some revenue stream(s) for which there is no clear choice for a just and reasonable method. This method is a general variant of the advertising-based method discussed above in paragraphs 93 to 97.
105. In this method, the provider uses the proportion of revenues already apportioned to the relevant parts as the basis to apportion other categories of revenue. This may also be a proportionate approach when the remaining revenues are relatively small, or they relate to smaller ancillary services.

106. There may be cases where more than one apportionment method has been used to apportion the other revenues. In such cases, providers should exercise judgement as to which method is just and reasonable for the remaining revenue stream in question. This could be done by considering the similarities and differences between the revenue stream in question and the revenues that have been previously been apportioned. Providers may also consider whether a combined approach may be just and reasonable. Such a combination may take the form of a weighted average based on the relative size of the revenues that have already been apportioned.

Apportionment for the purposes of determining UK referable revenues

108. As explained above, according to the proposed section 83(6) exemption which is subject to approval by the Secretary of State, a provider of a regulated service shall be exempt for the purposes of section 83 (duty to notify) and section 84 (duty to pay fees) of the Act where that provider's UK referable revenue is less than £10 million in a qualifying period.

109. If a provider considers that it could benefit from the above-mentioned exemption, then it will need to calculate its UK referable revenues to satisfy themselves⁷⁴ that it is indeed less than £10 million.

110. To calculate the UK referable revenues, it may not be possible to separately identify revenues arising in connection with the provision of the relevant parts and revenues arising in connection with the non-relevant parts in the UK. In such a case, the revenues should be apportioned to the relevant parts in the UK on a just and reasonable basis.

111. The UK referable revenues are revenues that arise in connection with the provision of the relevant parts to UK users. Apart from this, all the requirements and guidance with regard to the calculation of the QWR also apply to the determination of the UK referable revenues.

112. Some providers may have, in their financial statements or accounting systems, a geographic breakdown of their revenues including the UK revenues. If these revenues are all referable to the relevant parts, then that would be the quantum of the UK referable revenues.

113. If this geographic split for the UK includes both revenues from the relevant and non-relevant parts, then the revenues figures should be apportioned to the relevant parts. This apportionment should be done in line with the requirements and the guidance we have provided in this document and elsewhere with regard to the QWR (including specifically the guidance we have provided on apportionment methods).

⁷⁴ A provider who qualifies for the UK revenue exemption is exempt from the duty to notify and duty to pay fees. Ofcom might seek to understand and confirm a provider's eligibility for fees (e.g. through the use of the information gathering powers). As such, providers who rely on the UK revenue exemption should be prepared to justify and demonstrate why they benefit from the UK referable revenue.

114. If such a geographic split including the UK is not available, or it is not sufficiently reliable (see the completeness, accuracy and objectivity principles), then the providers could apportion their QWR to the UK using, among other things, one or more of the following bases:

- i) Relative number of UK users or subscribers;
- ii) Proportion of advertising revenues earned in the UK; and
- iii) Proportion of advertising volumes generated in the UK.

115. Similar to the QWR calculation, the provider should also make sure the apportionment basis it applies is just and reasonable, with reference to the guiding principles and other relevant guidance set out in this document and elsewhere.

Question 2:

Do you have any comments on the proposed range of apportionment methods? Do you consider these apportionment methods to enable consistent application of 'just and reasonable' apportionment whilst accommodating a provider's individual circumstances and business model?

If not, what additional methods or changes would you recommend and why?

Please provide evidence to support your responses.

Other methods we may use to estimate QWR

116. We set out below examples of other methods of estimating QWR which Ofcom may use. These methods attempt to estimate provider's QWR, i.e. the revenues of the relevant parts directly, without applying apportionment on some basis.

117. Ofcom may use these methods in circumstances where we need the QWR to assess the maximum penalties and the proportionality of the quantum of the penalty for a provider who has been asked to submit its QWR for enforcement purposes but has failed to do so. We may also use these methods where it is necessary to assess and verify, using alternative apportionment methods, the QWR which has been submitted by a provider for either fees or penalties purposes:

- i) **Benchmarking:** Based on the revenues of comparator standalone regulated services with similar functionality and quality in the market.
- ii) **Direct revenue estimation:** Using volumes (e.g. subscriptions and advertising quantities) and unit prices related to the relevant parts.
- iii) **Direct cost-plus estimation:** Estimating the costs of providing the relevant parts plus a commercial return.