International Council for Ad Self-Regulation

01/10/2018

How are Self-Regulatory Organizations financed?

Advertising Self-Regulatory Organizations (SROs) are independent bodies set up and funded by the advertising industry to apply standards aimed at ensuring that advertisements are responsible from an ethical point of view. The size, composition and responsibilities of these bodies varies from market to market.

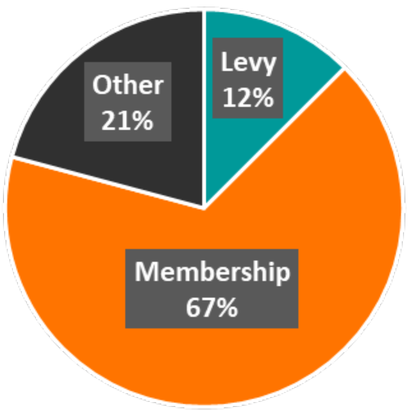
Here, we provide a **general overview** of the funding models used by SROs across the world rather than a detailed description of local specificities. We hope that this overview can be helpful to those seeking a better understanding of how SROs are financed. If you have any questions or wish to obtain further details, please contact the ICAS Secretariat at info@icas.global.

1. Overview of SRO funding models

SROs can be grouped into three main categories in terms of how their activities are financed:

- The vast majority of SROs (32 markets) are primarily financed by **membership fees**;
- 6 markets use a **levy system**;
- The remaining SROs (10 markets) use **other models**.

Chart: SRO funding models worldwide[1]



[1] Data was collected by the ICAS Secretariat based on publicly available information for SROs located in 48 countries (24 ICAS SRO members and 24 other SROs).

2. The membership model

- **What is the membership model?**

In markets with a membership model, the SRO is primarily funded by **annual contributions from member firms and/or associations** which represent the advertising industry. Membership fees may be a fixed amount, or they may be based on a sliding scale (with larger members paying a higher fee than smaller members). There may also be different levels of membership fees depending on the type of members or the services provided.

Membership in the SRO is typically voluntary and entails certain rights and benefits, such as (preferential) access to the SRO's services. Whereas membership fees are often the primary source of income for an SRO, it is rarely the only one and the SRO may also collect income by offering premium services or services to non-members.

- **How many SROs operate a membership model?**

Today, the membership model is by far the **dominant model** for funding SRO activities worldwide. According to the data collected by ICAS, **32 markets** can be considered to operate a membership model: Argentina, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Colombia, Cyprus, the Czech Republic, El Salvador, France, Germany, Hungary, India, Italy, Japan, Lithuania, Luxembourg, Malaysia, Mexico, Paraguay, Peru, Portugal, Romania, Slovakia, Slovenia, Spain, Turkey, the United Arab Emirates, Uruguay, and Zimbabwe.

- **How are membership fees calculated and charged to SRO members?**

In most cases, SROs charge a fixed amount to their members every year. Some SROs however introduce an element of proportionality by establishing different fee categories depending on the size of member organizations, i.e. charging a higher amount to large organizations while making membership affordable for smaller members.

The level of membership fees varies greatly from market to market. For a single SRO member, the annual fee can be anywhere between USD 100 and USD 72,000, depending on the country and the type of member.

3. The levy system

- **What is the levy system?**

In markets with a levy system, a **small percentage of advertising costs** is retained to finance the operation of the SRO. This amount is typically collected by advertising agencies which act as intermediaries between advertisers and media owners (TV, radio, billboard sites, newspapers, websites etc.) before it is transferred to the SRO.

The levy, where it exists, is typically **voluntary** - but widely adopted by the industry. In the UK for instance, the levy is applied by default and advertisers need to opt out of the system if they do not wish to pay the levy.

The levy is typically the primary source of income for an SRO, but it is rarely the only one. The SRO may also collect other income, for example by offering premium services such as specialized trainings. In some markets such as Ireland and Greece, **membership fees may also be collected as a complement to the levy,** but they do not represent the primary source of income for the SRO.[2]

- **How many SROs are funded by a levy system?**

Today, a levy system is used in **6 markets**: the United Kingdom, Ireland, the Netherlands, Greece, Australia and New Zealand.

To find out more about the details of the levy system in each of these markets, here are some useful links:

  - Australia: Description of the funding system on Ad Standards' website and Q&As on the levy
  - Ireland: ASAI Structure, Function and Funding
  - Greece: SEE website (in Greek)
  - The Netherlands: SRC Financiering (in Dutch)
  - New Zealand: The levy explained
  - The UK: Overview and Guide to the Operation of the Levy scheme for broadcast and non-broadcast media

- **How are advertising costs determined for calculating the levy?**

The levy is paid by advertisers based on **gross advertising spend**. In order to apply the levy, SROs typically rely on **media buying agencies** to withdraw a certain percentage on ad buying costs. In some cases, the levy can also be collected **directly from advertisers** and ad agencies that buy their own media space. The levy is usually collected on a quarterly basis.

- **What percentage of ad spend does the levy correspond to?**

The **levy rate** ranges **from 0.02% to 0.2%** depending on the market. A **cap** is sometimes applied such as in the Netherlands where the annual levy cannot exceed EUR 30,000 per advertiser. In the UK, the 0.2% levy applied on direct marketing costs (direct mailings delivered by the UK Royal Mail) is capped at EUR 57,000 per advertiser.

[2] In New Zealand, media proprietors provide direct financial support to the SRO, on top of the levy.

4. Other models

ICAS generally considers that an SRO belongs to the levy system or the membership model if more than half of its annual budget comes from the levy or from membership fees respectively. Other cases are considered to rely on an alternative funding model.

These other funding models are very diverse, and it is therefore very difficult to provide a general description of these models. A few illustrative examples can however be provided:

- **Hybrid models**

Some SROs combine elements of the levy and the membership models. In Poland, Sweden, Switzerland and South Africa for instance, SROs are partly funded by “sponsors”, i.e. entities who willingly provide financial support to the SRO without entering a standard member agreement.

- **Service fee models**

Some SROs are primarily funded by fees they charge for providing services. In the United States for example, the SRO is primarily funded by fees charged for services provided to the advertising industry (such as the handling of competitor complaints) and advertising associations (such as monitoring services for specific self-regulatory programs and projects). In the Philippines, the SRO is primarily funded by screening fees (paid by advertisers for pre-clearing ads), special fees (such as fees for filing a complaint about a competitor or for filing express screening requests), and penalties (charged in case of violations of the standards).

5. Evolution of SRO funding models

SROs typically operate as ‘lean’ organizations. With limited financial resources and staff, they seek to deliver maximum value to advertisers, consumers and other stakeholders by providing advisory services and/or by handling complaints on ads considered potentially unethical.

In order to fulfill their mission and achieve sustainable funding, many SROs are developing their service offering, for example by providing training on advertising standards or advisory services to companies and public authorities. SROs also seek to ensure that their funding model remains aligned with the latest market developments. One of the challenges they face is to adapt to the rise in the number of ads published in digital media - as opposed to traditonal media.

To follow the latest developments in global advertising self-regulation, subscribe to ICAS News Alerts at: https://icas.global/news/subscribe/