RCOM Comments on System on Accounting Separation Regulation

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1. **RCOM welcomes the opportunity to comment on the Draft System on Accounting Separation Regulation.**

2. Service Providers had been requesting the Authority from a long period of time to review the Accounting Separation Regulation to make it simpler and align it to the TRAI requirement to meet its various objectives like pricing, monitor growth of services etc. However the Authority seems to have as per the draft Accounting Separation Regulation the Accounting Separation would be even more granular and complex.

3. TRAI costing is generally done on all India basis. There are common termination charges across all geographies, common ceiling for roaming charges in all geographies etc. **Since TRAI policy does not require separate costs details for each geographical areas, TRAI is requested to withdraw geographical level segregation.**

4. Telecom Operators are required to maintain cost records and reports under TRAI's Accounting Separation Rules and Cost Accounting Records(Telecommunication Industry) Rules, 2011 notified by the Ministry of Corporate Affairs. Thus similar records under the various statues are being maintained which makes it very difficult and onerous duty on the telecom operators. The TRAI is requested to align both rules.

5. TRAI is proposed separation of cost for on-net and off-net calls, Pre-paid and post paid segments, Access Service-WLL and Access Service- Full Mobility etc. All these products have similar cost components. There are few revenues streams like rental, administration fees which are not products. Therefore we request to prune the product list.

6. The Authority is proposing to continue with the Accounting Separation Reports based on Replacement Cost Accounting every second year in addition to the reports based on historical cost accounts which are to be submitted every year. The replacement Cost Accounts is required only for the purpose of tariff setting. Since most tariffs are under forbearance and few whole sale tariffs like port charges, leased line charges, IUC etc are decided using bottom up cost model,

the replacement cost accounts many not be very relevant. TRAI may consider to withdraw Replacement Cost Accounting.

7. Technically it is not possible to segregate revenue for 2G and 3G data streams and therefore segregation based on technology should not be mandated.

8. The Accounting Separation reports are not required for payment of any taxes and levies and also rarely used for costing and therefore we are unable to appreciate the requirement of auditing and adoption of these reports by the Board of Directors.

9. The Authority is proposing to add new service IP I for accounting separation. Most Tower companies are stand alone service providers and therefore the TRAI may consider to exclude IP I operators from the requirement of separating Accounts. Further passive infrastructure is shared at mutually negotiated prices and therefore detailed cost records may not be needed. At present IP I segment is also not licensed. Therefore TRAI may consider to exclude IP I from the requirement of preparing separate accounts.

10. **Conclusions:**

- **Accounting Separation should not be implemented retrospectively;**
- **Cost Records under TRAI Accounting Separation regulation and Cost Rules Notified by Ministry of Corporate Affairs should be aligned.**
- **Simpler Accounting Separation with few products which are being regulated or monitored by the TRAI**
- **No separation of accounts on the basis of geographies and support functions**
- **Replacement Cost Accounting should not be implemented**
- **New services like IP I should not be included in Accounting Separation.**
- **TRAI should not mandate auditing and adoption of Accounting Separation by Board of Directors.**

RCOM's specific comments on various proposals and issues in the Draft Accounting Separation Regulation are as follows:

I. Retrospective Implementation of Accounting Separation Regulation

11. The Authority has proposed that the Accounting Separation reports as per the new Regulation should also be prepared for year 2010-11. The service providers have already submitted Accounting separation reports for the year 2010-11 and it would be unfair if they are gain asked to prepare reports.

12. TRAI is proposing to prepare separate accounts for several new products and network elements. In addition separate accounts are also required to be prepared for support functions. The information required to prepare these accounts is not readily available and would require major changes in the manner in which books of accounts are to be maintained and the IT tools required to prepare the reports. Therefore, the Authority is requested to implement the new Regulation from 2012-13.

13. **We request the Authority to implement the Accounting Separation from the year 2012-13.**

II. TRAI's Accounting Separation Regulation and Costing Rules of Ministry of Corporate Affairs

14. All Telecom Operators are incorporated under the Companies Act,1956 (Act) and need to follow the various compliance requirements including maintenance of Accounting records and cost record as prescribed under the said Act. Ministry of Corporate Affairs, vide its Order dated 2nd May 2011 has made it compulsory to audit Cost records of telecommunications companies from FY commencing from 1st April 2011 by Cost Auditor. The Telecom Companies are required to maintain records under the TRA Accounting Separation Regulation and Ministry of Corporate Affairs Cost Rules.

15. In view of the above the telecom operators are made to maintain records and reports for the similar items under the various statues which makes it very difficult and onerous duty on the telecom operators.

16. **RCOM requests that costing requirement of TRAI and Ministry of Corporate Affairs should be aligned so that Affairs so that service providers are not unnecessarily burdened.**

III. The System of Accounting Separation requires extensive segregation- Need to Simplify

17. Since the market is enough competitive, it is requested that detailed segregation of accounts may not be prescribed. At present the segregation of account is mandated at geographical, service, product and network elements level. Now it is being proposed that the segregation of accounts be extended to the support function level also. This will load service providers and the Authority would number of new reports as the segregation is required to be done at geographical level.

18. RCOM believes it is unlikely that the Authority would require segregation of cost at support function level for costing and pricing. The reporting of costs at a support function level would increase complexity and cost for the service provider without significantly serving useful purpose.

19. TRAI costing is generally done on all India basis. There are common termination charges across all geographies. Similarly there is common ceiling for roaming charges in all geographies. There are many products for which TRAI would not require separate costs.

20. TRAI has proposed separation of cost for on-net and off-net calls. Perhaps there is no difference in costs except termination charges. Similarly Pre-paid and post paid segments have similar costs, the difference being only for the billing systems.

21. The Access Service-WLL and Access Service- Full Mobility are offered from same network and have exactly same costs. The TRAI has always maintained same termination charges for these two services. Therefore there should not be any requirement separating accounts between WLL and have similar costs.

22. Rental, activation, one time fee etc are not even products. The products are calls, SMS, GPRS etc and only such products should be there.

23. Technically it is not possible to segregate revenue for 2G and 3G data streams and therefore segregation based on technology should not be mandated.

24. The Authority does not use circle wise cost details for deciding prices or charges. All costing exercise for IUC, roaming, port charges, leased circuits, etc are done at all India level and therefore segregation of costs at circle level would only impose cost and increase complexity in preparation of Accounting Separation reports.

25. The Authority has also added new service IP I for which accounting separation is to be carried out. Most Tower companies are stand alone service providers and therefore the TRAI may consider to exclude IP I operators from the requirement of separating Accounts. In addition charges for passive infrastructure is required to be negotiated. This provision also justifies to keep IP I operators from the requirement of preparing separate accounts.

26. **RCOM requests TRAI to consider simpler Accounting Separation without any requirement of segregation of accounts into different geographies and support functions. IP I services should be kept out of Accounting Separation. Even products list need to be simplified. There should not be a requirement to segregate accounts into pre-paid and post paid, 2G and 3G data, off-net and on-net calls etc.**

IV. <u>The New Accounting Separation Report not in line with TRAI's costing methodology</u>

27. As per the draft Regulation, the service providers are required to maintain the cost records on the basis of historical cost. In addition service providers are required to prepare cost records on the basis of replacement Cost Accounting. However TRAI has decided against to use any of these methodologies for costing of Interconnection Usage Charge.

28. The Authority has used Long Run Incremental Methodology, Long run Incremental Methodology Plus methodology and Pure Long Run Incremental Methodology for estimating the termination charges. The biggest costing exercise undertaken in TRAI is with regard to Interconnection usage Charges. However, the Accounting Separation reports in the current format would not meet the TRAI requirement.

29. The TRAI has used Bottom up cost methodology for estimating Port charges, Termination Charges, roaming charges, etc. However the Accounting separation Reports are based on top down methodology which include number of costs which are not allowed by the Authority under the Bottom up methodology.

30. For Bottom up based costing, the TRAI would continue to require separate cost information from the operators. Therefore the Accounting separation reports in the present form are unlikely to meet the requirement with regard to costing records.

31. **Therefore it is suggested that detailed cost records as far as possible should not be mandated.**

V. <u>Replacement Cost Accounting</u>

32. The Authority is proposing to continue with the Accounting Separation Reports based on Replacement Cost Accounting every second year in addition to the reports based on historical cost accounts which are to be submitted every year. The replacement Cost Accounts are required only for the purpose of tariff setting. Since most tariffs are under forbearance and few whole sale tariffs like port charges, leased line charges, IUC etc are decided using bottom up cost model, the replacement cost accounts many not be required.

33. Accounting Separation Reports on the basis of replacement costing should not be done firstly as TRAI stopped regulating tariffs and current costs are as such no more relevant. In addition soon IFRS is being adopted and the service providers will be preparing financial reports on assets etc on the current market value. This should largely meet the requirement for adjustment based on current costs.

34. **In view of the above, RCOM suggests that the Replacement Cost Accounting should not be mandated.**

VI. <u>Adoption of Accounting Separation Statements by Board of Directors</u>

35. The Board of Directors of the Company is required to review the quarterly result and annual accounts as mandated under the listing Agreement with Stock Exchange and the Companies Act,1956. As per the TRAI draft Accounting Separation regulation the accounting separation reports are required to be reconciled with the Annual Accounts. Since Accounting separation is ultimately based on the annual accounts, the additional responsibility for adopting Accounting Separation by the Board of Directors will not serve any useful purpose. **It is therefore requested that the requirement of adoption of Accounting Separation by the Board of Directors should not be mandated.**