

Bharti Airtel's response to TRAI's Draft 'The Reporting System on Accounting Separation Regulations, 2012'

General

At the outset we would like to thank the Authority for revising the requirements of ASR and doing away with the requirement of many Non Financial Information requirements which otherwise were redundant.

However, there are still many issues which require authority's attention in the light of current & emerging situations, to state a few:

Post Unified licensing the same infrastructure can be used to provide multiple services for which presently the service providers install separate networks. The draft report in its present shape and form is not in sync with the concept of Unified Licensing regime.

The proposed regime (read with draft new telecom policy) also envisage separate network companies and service providers. In such a scenario identifying the network cost etc for service providers the way it is mention in this proposed regulation shall be a challenge. Therefore we propose that the Draft ASR Regulation should be kept in abeyance till the final Guidelines on Unified Licensing are issued by the Authority.

Basis of allocation has not been defined. This will lead to different operators treating / allocating same cost differently. Thus comparability will still be a challenge. It is suggested that requisite guidelines are framed around this.

- Online submission in proposed shape and form will still be a challenge due to non uniformity of product and cost allocation methodology.
- There are No specific Disclosure requirement for adoption of IFRS in first year of adoption incase the companies are revaluing their assets / liabilities.

We would suggest the Authority to resolve these issue before implementation of the new guidelines.

The Regulation (Notification part)

- **Chapter I (definitions)**
Related Party: The statement of 'related party transactions' needs more clarity keeping in mind various service licenses and transactions between them especially in the areas of cost

of infrastructure sharing and revenue from infrastructure sharing of group and non group companies which are anyways separate legal entities.

- **Chapter II (Manual & Report)**
Manual (Clause 3)

The Authority has proposed that a Manual containing policies, principles, methodologies and procedures for accounting and cost allocation shall be filled **within one month from the date of commencement of these regulations.**

It is pertinent here to note that submission of the manual within one month of the date of commencement of these regulations is not practically possible due to the following reasons:

- Manuals are in the nature of Notes to Accounts forming part of a financial statement which cannot be prepared before preparation of the actual financial documents.
- The company during the year undergoes many changes, sometimes for change in regulation or change in the business methodologies etc. The auditor has to certify the manual as per Schedule IV therefore these cannot be recorded in advance.
- These structural changes will have significant bearing on the accounting and related reporting.
- It is not possible to decide the accounting and allocation methodology in advance in case of new streams of businesses coming up during the year.

We would like to submit that as per our information the Notes to Accounts or the policies basis which the financial statements been prepared are never published/filed with any authority before the actual financial statement. The policies with respect to it are disclosed only after the statements are audited & completed.

If the underlying intention is to get apprised of the accounting policies of the company in general, it is pertinent to note that companies are required to comply to the section 211 of the Companies Act 1956 which are standard rules and regulations for preparation of accounts. In such situations, submission of manual even before the actual report and its subsequent fillings for changes, if any, (within one month of such change) will only lead to complexities with versions starting from the first one (which is one month from date of regulation) to the audited version (post audit-within 6 months of the end of the relevant financial year).

Report (Clause 4) (and Replacement Cost Methodology)

For the purpose of Replacement the Capital Cost Maintenance methodology has been proposed. However, this methodology has the following limitations:

- It requires a lot of judgments, thereby leading to subjectivity and being open to debate
- Even for benchmarking Modern Equivalent Asset in terms of technological change etc requires lot of judgment and is open for debate.
- There should not be replacement cost of an asset/product which is less than 3 years in age.
- Operators have entered the market at different point in times and thus have acquired the assets which may vary in the feature / cost. Besides this they may have different network topologies. The Capital Cost Maintenance Methodology will neither be able to curb this disparity nor bring in any comparability in numbers.

The ASR prepared under replacement cost methodology reflects neither true picture nor does it serve any purpose. Therefore, it is requested that the requirement of replacement may please be dispensed off with.

- **Others**
Adoption of ASR By Board

Given the timeline of 30th September, adoption of ASR by Board shall be a challenge in itself. The Board meeting is convened to adopt the quarterly results in line with the Companies Act and it will not be possible to convene a Board meeting especially to adopt ASR within 30th Sept each year.

ASR is in effect a conversion of financials into cost records which is the work of the specialist who uses a lot of underlying assumptions, estimations and allocations. As ASR is signed by a representative of the Company duly authorized by the Board, therefore the requirement of adoption of ASR by Board may be dispensed off.

- **Audit Report**

It may be noted that the Cost Audit Branch (CAB) of the Ministry of Corporate Affairs vide its order no. F.No.:52/26/CAB-2010 dated 2nd May, 2011 has directed to all Telecom Companies to get their Cost Accounting Records audited from a Cost Auditor (Cost Accountant or a firm of Cost Accountants).

Further, ASR is a 'certification' and expression of opinion by auditors in the proposed format shall be a challenge for the auditors too.

Thus this becomes a certification of work done by the company and the audit is carried on by the auditors as per '**Standards on Related services (SRS) - 4400**' issued by the institute of

Chartered Accountants of India and hence cannot be equated with the report provided by auditors under Statutory/Cost audit

In this context, Audit of ASR may no longer be necessary. We therefore submit that the ASR should be filed on the basis of self certification and the need of Audit of ASR should be done away with.

- **Infrastructure Companies**

IP-1 service providers are just facilitators to the UASL operators and provide assets such as Dark Fiber, Duct space, Tower, building etc. We would also like to highlight that a license is granted by the Government under Section 4 of the Indian Telegraph Act 1885 for granting to licensee the privilege of “*establishing, maintaining and working telegraphs.*” While the Infrastructure Providers provide the passive infrastructure, they do not have the privilege of establishing, maintaining and working telegraphs and hence, rightly operate under a registration instead of a license.

With this background, IP-1 business (Tower, Dark Fibre etc) has so far been kept outside the Licensing regime except for some administrative requirements. The following requires an attention of the authority:

- The IP-1 companies are not licensee companies therefore these should not be mandated to implement ASR. The requirement of submission of data for IP-1 may be dispensed off with.
- The business of IP1 providers is completely different from that of telecom service providers therefore all the proforma in its present shape and form which are relevant for service providers are not so relevant for IP1.

- **Schedule - I**

We understand that this schedule is only indicative in nature. Hence, the products should be decided on the main revenue driver alone as for most of the indicative components, the costs can neither be segregated nor be allocated.

Our comments with respect to the same are as below:

- **Access Service - Wireless, Wireline and WLL**
 - As mentioned aforesaid, the product should be decided basis the main revenue driver and accordingly it is suggested that it should be limited to Prepaid, Post paid and Roaming.

- As regards components of these products, the details should be limited to a first level of drill down for reflecting revenue e.g. Calls, Message, VAS, Data and Roaming. A further sub componentization of these into voice and video and a third level to on net / off net is not desirable.
- Segregation of data into 2G & 3G is not possible as the customer shall keep roaming between the multiple RANs.
- Internet Service Provider
 - The products should be retained as broadband (dedicated) and narrowband (including dialups)
- NLD/ILD
 - The product should be decided basis the main revenue driver and accordingly it is suggested that it should be limited to Voice and Data and further sub componentization should not be asked for.
- **Schedule - II:**

We understand that this schedule is only Indicative in nature . Hence the cost should be segregated in to main network elements viz. core and dedicated network and the TRAI proposal of having various sub components under the main network elements can surely be suggestive in nature.

- **Non financial Report:**

Clause A -Wireless Service:

3.1 Usage-Minutes/ Number: It is not possible to bifurcate the products on the off net, on net basis as the telecom service providers are offering various combo products (which are neither **segregable** nor allocable) in the highly competitive telecom environment..

3.2 Data Usage: It is not possible to segregate the data usage technology wise (2G/3G) as the customers keep roaming between the multiple RAN environment.

Clause B - Wireline Service:

3.2 Usage-Minutes/ Number: It is not possible to bifurcate the products on the off net, onnet basis as the telecom service providers are offering various combo products (which are neither segregable nor allocable) in the highly competitive telecom environment..

Clause D – NLD service :

2.3 Data usage in MB: It is not possible to provide data usage in the NLD Service as the NLDO generally sells bandwidth through leased circuit to its customers instead of data.

Clause E- ILD service :

2.1 Details of transmission capacity:

As we are already providing capacity details of capacity 'owned' and 'leased in', the proposed bifurcation into capacity sold-retail, capacity sold-leased out and captive consumption is not required.

2.3 Data usage in MB: It is not possible to provide data usage in the ILD Service as the.

ILDO generally sells bandwidth through leased circuit to its customers instead of data.

Clause H- Cable Landing service:

In case of sub clause 2.4-2.6 , we would like to bring to your notice that the data on number of landing/Access facility provide/collocation provided is dynamic in nature and hence the data that shall be provided will be on the basis of subscription on the last day of the financial year being reported.