Association of Unified Telecom Service Providers of India

AUSPI/12/2015/013

22nd April, 2015

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Subject: AUSPI's Comments / Views regarding Review of "The Reporting System on Accounting Separation Regulations, 2012"

Dear Sir,

Please refer TRAI Letter bearing No.16-02/2015-F&EA dated 1st April, 2015 seeking Comments / Views of stakeholders regarding Review of "The Reporting System on Accounting Separation Regulations, 2012". We are pleased to attach AUSPI's Comments / Views for your consideration.

Thanking you,

Yours sincerely,

Ashok Sud
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Copy to : Shri Sudhir Gupta, Secretary, TRAI

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AUSPI's Comments/views for Review of "The Reporting System on Accounting Separation Regulation, 2012 (7 of 2012)" dated 10th April 2012 (as amended)

AUSPI welcomes the opportunity given to the stake holders for providing comments/views on various aspects related to Accounting Separation Regulations.

We believe that in the existing scenario with intense competition, there is no necessity of any reporting system for accounting separation. However, if the Authority still feels that reporting system on accounting separation is necessary, then there should be online submission only once a year in a much simpler form with relevant details. Manual submission of reporting should be dispensed with as hard copies take lots of time as well as wastage of valuable resources.

TRAI does not require from TSPs separate costs details for each geographical area and therefore, it is requested to review this aspect and withdraw geographical level segregation. DoT has also come up with a unified license on pan India basis. Further, most of the service providers are migrating fully to an IP based pan India Network; hence deriving geographical level wise segregation is becoming very difficult.

In addition to the above, we have to make the following comments on the above mentioned Regulation:-

1. Separation of cost is not required for on-net and off-net calls, Pre-paid and Post paid segments, Access Service-WLL and Access Service- Full Mobility national and international revenues etc. All these products have similar cost components. **Therefore, we request the Authority to prune the product list.**

2. The Accounting Separation reports are based on audited accounts and are approved by the Board of Directors. There should be no need to again audit and get approval by Board of Directors. **Therefore, we suggest that the Accounting Separation Reports should be self-certified and no audit should be necessary.**

3. TRAI costing is generally done on all India basis. AUSPI believes it is unlikely that the Authority would require segregation of cost at support function level for costing and pricing. **Therefore, there should not be any requirement of segregation of accounts on the basis of support functions.**

4. **Similarly, segregation of accounts at Network elements level should not be required because the costing is done on all India basis.**

5. **Roaming should be one under one head without breakup of National and International.**

A. Replacement Cost Accounting (RCA)

1. **Periodicity of Submission of ASR on basis of Replacement Cost Accounting (RCA) -** Currently, Accounting Separation Reports based on RCA is required to be submitted every second year in addition to the reports based on historical cost accounts which are submitted every year. RCA is required only for the purpose of valuation of assets at current cost. Since cost of assets is not frequently changing, **it is suggested that the Accounting Separation Reports based on Replacement Cost Accounting (every second year) be done away with.**

2. **Index for determine current cost Assets** - Currently all telecom companies are using different methodologies for determining the current cost of assets. There are no standard/Specific guidelines issued/recommended by the TRAI to determine current cost. **It is, therefore, suggested that there should be standardized guidelines for determining the current cost, so that uniformity is maintained across industry.**

B. Accounting Separation Manual (ASM)

Periodicity of Submission of Accounting Separation Manual (ASM) -As per current guidelines, every company should submit the revised manual within 30 days from date of any changes. **It is suggested that submission of manual should be made annually either at the beginning of the accounting year or along with submission of accounting separation records.**

C. Uniform Basis of Allocation and Apportionment

1. **Basis of Allocation Common Cost to Product -** There is no standard basis for allocation of Common cost to multiple products. Every company has its own method to allocate common cost. **AUSPI, therefore, suggest TRAI to make specific guideline for cost allocation between products.**

2. **Basis of Allocation Support Function Cost**- A uniform basis of distribution of Cost of Support function (Proforma D) to Network Elements (Proforma C) and to Products (Proforma B) should be prescribed by TRAI. Likewise, a uniform basis of distribution of cost of Network Elements (Proforma C) to Products (Proforma B) should be prescribed by TRAI. This will facilitate TRAI in conducting Analysis and Fixation of Rate of Products (Call rate, data Charges etc.).

3. **Basis of Allocation of Corporate Opex Cost –** Currently telecom companies are incurring huge cost on account of common advertisement/branding cost, common network cost, corporate employee cost and likewise any other cost, which are not allocated to any specific circle and accounted for in the books of corporate center . There are no specific guidelines for allocation and apportionment of corporate center cost across circles. **It is, therefore, suggested that specified guideline should be prescribed for allocations.**

D. Proforma

1. **Proforma Proposed changes need to be done in Proforma' s –** We Suggest to TRAI to make following changes in Schedule I of Proforma.

   a. **Proforma C & D:** Can Proforma C & D can be merged and single proforma to be used for allocation of Network Cost and Supportive function cost.
   b. **Proforma H:** Title of proforma H is "Statement of Related Party Transactions", but the desired information in proforma H is measurement of per unit Revenue of different

products. It does not have information of related party. It is suggested either changes in title or suggests that only related party transactions need to be mentioned. Related party details in Proforma H are complex requirement. It is a cumbersome job to compile product level revenue data for all Group companies and for each and every circle. There has to be simple and relevant reporting under proforma H.

c. **Proforma I:** It is suggested to provide guidelines for reconciliation items, that should part of reconciliation items or not.

d. **Proforma B**: S.No.2.6-Network Operating Cost should be omitted as Proforma B relates to product cost and not Network cost.

e. **Proforma C**, S.No. 1.3 - Sales and Marketing Cost and S.No. 1.5 - Government Charges should be omitted as Proforma C is related to Network cost not Product Cost.

f. **Proforma D**, S.No. 1.5 - Government Charges and S.No. 1.6 - Network Operating Cost should be omitted as Proforma D is related to Support Department cost and not Product and Network Costs.

g. **Proforma G**, Uniform basis should be prescribed for allocation of capital employed.

h. **Proforma-A&B**: presently "Sale – Within Group/ Company" shown under Whole Revenue only, it should be omitted. To be shown as follows:

1	**REVENUES (NET OF SERVICE TAX) :**
1.1	**Wholesale Revenue**
1.2	**Retail Revenue**

i. **In proforma B**, presently in "Rental/Activation/One Time Fees/Recharge Fees" , "Pass Through Charges" are not be allocated to the cost of this product. Please advise weather pass through charges should be allocated to this product or not, if "Yes" please specify guideline for allocation.

ii. **Proforma F – WACC:** There are no specified guidelines for determining rate of cost of debt and Cost of equity. It is suggested please specify guidelines for same.

iii. **Minimization of Network elements as defined in Proforma E for all services : We would like to request for minimizing the network element which is appearing in Proforma E, because total network cost are allocated on all network element which does not seems correct.**

2. **Non-Financial Information** –In addition to the financial accounting separation reports, the Authority also collects non-financial reports which include information on tariff, MoU, subscriber base, tariff information etc. Most of the information is also collected separately by various divisions of the Authority under performance monitoring reports, traffic reports, AGRs etc. As operators are submitting information separately and submission as part of the Accounting Separation is duplication, it is requested that non-financial reports may be taken out of the Accounting Separation.

E. Others -

1. **Treatment of license surrender Circles Cost:** There is no prescribed guideline for treating of OPEX, CAPEX, current assets and liabilities of license surrendered circles. **It is not specified whether the same should be considered as a reconciliation item or any other specific treatment.**
2. **Concept of materiality** - As per current regulation, companies need to submit ASR for each and every service as specified either the company is having negligible revenue for any services. **It is suggested that some concept of materiality should be introduced for providing the ASR.**
3. **Cost Audit and ASR Report's** - There should be Sync between ASR guidelines as issued by TRAI and Cost Audit Rules as issued by MCA Department. Data using for preparation of both reports are inter changeable. Preparation of both reports is cumbersome and time consuming activity. **It is suggested that there should be one guideline for both report.**

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