PoV on Accounting Separation Regulations

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1 Executive Summary

This document is a Point of View on Accounting Separation Regulations in India in response to request for views on existing ASR recommendations dated April 1, 2015

The PoV is an attempt to understand the need for various accounting structures to make decision making more informed and enrich guidelines for policy making.

Accounting separation as a practice exists in almost all mature markets with different models and approaches. It helps in identifying the industry dynamics at granular level for services, business function entities and impact on overall industry growth.

ASR released in 2012 were necessary steps in this direction with a lot of elaboration on reporting specifications in Indian context. It is an evolving area that needs refinement with change in industry behaviour and regulatory focus. Though the regulations are not very old but still the initiatives to make it better is definitely encouraging.

2 Context and Relevance

Indian telecom market is structured with logical separation of service areas. Service areas act as a virtually separate playing field for service providers by providing opportunity for unique products & offerings, different pricing, different regional social and economic conditions.

Indian telecom industry has players of multiple types based on kind of service offerings or even kind of operating models. Few operators provide selective services whereas few provide all with ability to bundle products. Few operators use in-house expertise for operation and expansion whereas few depend on vendors and outsourcing companies.

Therefore it is difficult to align everyone under one structure without defining operation boundaries and widening product separation. Therefore it is natural to agree to existing approach towards structuring products and offerings in very discrete fashion i.e. giving importance to all aspects of products for example, pre-paid & post-paid, Voice and Data, SMS and MMS etc. Though change in customer behaviour may require rationalization of the service list. It is also important to see the impact of OTT services separately.

It is also a logical question to re-look at inclusion of facility providers and also define structure for content providers, especially when trend is towards separation of tower operations and increase in focus on revenue through songs, movie etc.

Any approach accepted needs to consider

1- Unique economic and operating condition of the nation
2- Simplification and rationalization of the process, structure and format
3- Reporting based on business value chain
4- Facility and peripheral service providers
5- Role of content and media services in communication service provider’s profitability

3 Value Chain driven accounting separation

It may be an approach to report accounting details based on logical operating points in value chain i.e. operating units working as independent cost and profit centres.

1- Passive Infrastructure Provider/Unit
2- Active Infrastructure Provider/Unit
3- Network & Systems Operations
4- Content and VAS Providers/Unit
5- Service Operations, Billing, customer care and back office
6- Sales & Marketing, Acquisition
7- Enrolment Verification services

Further to this it is suggested to continue to retain existing detailed decomposition around service type and infrastructure type.

It will help in identifying which particular area in telecom value chain is under stressed and which one is over leveraged.

It may also be recommended to have spending decomposed around capex, opex and R&D for each area. It will help to understand where industry as a whole is strategically focusing and where further assistance around finance, skill or government support may be needed.

Normally service providers offer bundled services or multiple services together therefore it becomes difficult to separate administrative services cost, marketing and acquisition cost etc to correctly apportion and divide based on services therefore existing rules of separating at granular level for shared services may be stopped and instead such services can be taken as part of a business unit operations separately based on value chain.

Apart from these metrics like average infrastructure age and cost on upgrade should be reported separately. This will help in measuring if service providers are more engaged in just milking existing infrastructure or looking at more forward looking infrastructure models. It'll also help in analysing how network and system aging is affecting operating cost and efficiency.

4 Key Considerations

It may be taken as opportunity to recommend few innovative changes in financial reporting to make strategic decisions in future. Few of them are listed below

1- It may be recommended that TRAI mandates reporting on expenses on Electricity, Conventional fuel i.e. diesel, unconventional and green fuels. This will help in deciding progressiveness of telecom service providers towards saving comventional energy and encouragement for clean energy. It may happen that government and environment agencies get additional data points to support direct grid supply to towers or to provide some incentive to those operating units that focus on clean and green energy.

2- Cost of operation should include employee cost due to contractual employees and outsourced employees.

3- It may be recommended that Telecom service provides differentiate between managed and unmanaged home & office equipment. They should be reporting on operating cost overhead due to managed home & office equipment.

5 Appendix

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5.2 Disclaimer

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