

Advisor (F & EA)

Telecom Regulatory Authority of India
Mahanagar Door Sanchar Bhawan,
Jawahar Lal Nehru Marg (Old Minto Road),
New Delhi-110002

Ref:- No. 16-02/2015-F&EA dated February 22nd, 2016

Subject- The Draft Reporting System on Accounting Separation Regulations, 2016

Dear Madam,

With reference to the above letter No. On the subject mentioned above; following are our comments/views and suggestions for your consideration-

1. Product defined in Schedule I list of Draft ASR Regulation 2016

- a. **Roaming** : In Access Service, roaming charges are different on Calls, SMS and Data. It is, therefore, suggested that new sub products namely Calls, SMS and Data should be added under national and international roaming revenue. This may facilitate the regulatory and stakeholder to review and analysis the roaming related transactions for better control and analysis.

| As per Schedule I of Draft ASR 2016 | Suggestion |
|-------------------------------------|----------------------------------------------------|
| (e) Roaming : | (e) Roaming : |
| (i) National | (i) National a. Calls b. SMS c. Data |
| (ii) International | (ii)International a. Calls b. SMS c. Data |

Note : TSPs should be consulted for the feasibility of providing revenue and non information details of calls, SMS and Data for national and international roaming,.

- b. **Intra Circle Roaming** : In Access Service, there are some “Intra circle Roaming (ICR)” arrangements between two for more TSPs within circle. This is a basically a whole sale revenue for TSPs. It is suggested that to add one more sub product i.e. Intra circle Roaming in the whole sale segment.
- c. **Prepaid and Postpaid revenue** : Prepaid and postpaid are very important segments of Telecom sector. These segments have different subscriber base and different types of

strategies, tariff rates and direct costs are associated with these segments. Detailed information relating to these segments may be required for providing a fair and transparent policy environment to promote a level play field and facilitate fair competition.

At present, wholesale revenue is required to be presented in the prepaid and post paid segment which need to be done away as wholesale revenue cannot be attributed in prepaid and postpaid segment.

2. Financial and Non Financials Proformae :

- a. In proforma A, B, C and D, some more line should be added under the Depreciation head i.e. Amortization on Right to use Spectrum/Auction money and Bandwidth.
- b. In Proforma A, B, C and D, "Loss on sale of Fixed assets (net)" under the head of Other Cost should be deleted because as per the Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants such expense should be the part of reconciliation (proforma I). In the draft ASR Guidelines 2016, in Chapter 4.6 it is stated that these may be kept in mind for cost allocation/ appropriation to the extent not conflicting with any principles laid down in these Guidelines".
- c. In Proforma B, direct cost related to products should be allocated/apportioned from employee cost (at sl. No.2.1) to finance charges (at sl. No.2.9) which comprises direct product cost. But in proforma B, Network Operating Cost is mentioned at S.No. 2.6 appear to be out of place. There fore, it is suggested that all cost related to direct network cost should be removed falling between employee cost (at sl. No.2.1) to finance charges (at sl. No.2.9) of proforma B.
- d. Similarly in Proforma C, direct cost related to Network Elements should be allocated/apportioned from employee cost (at sl. No.1.2) to finance charges (at sl. No.1.9) which comprises direct product cost. But in proforma C, Sales and Marketing Cost mentioned at S.No. 1.3 and Government Charges mentioned at S.No. 1.5 appears to be out of place. Therefore, it is suggested that all cost related to direct product cost should be removed falling between employee cost (at sl. No.1.2) to finance charges (at sl. No.1.9) from proforma C.
- e. Likewise in Proforma D, cost related to support function should be mentioned and other costs like direct Network cost and direct products cost should be removed.
- f. In Proforma C and E, MSC/GMSC and MSC-Server/ Virtual MSC need to be shown separately but in practical separation of opex and capex cost for these network elements is not feasible at all. It is suggested these should be merged into single head. On the similar lines, SGSN and GGSN should be merged into one single line.

- g. In Proforma E, there is no mention of place where Products to be disclosed as it was mentioned in Proforma E in the ASR Regulation 2012. It is suggested that “Particulars” column of Proforma E should be similar as it was in the ASR Regulation 2012 i.e. Network elements... subtotal (A)... Products... subtotal (B)... Support functions/ departments... subtotal (c)... Total (A+B+C).
- h. In Proforma F, Capital Work in Progress has been shown as part of capital employed. Further capital employed computed in this proforma is linked to proforma A and B for determining the return on capital employed. Return on capital employed is not showing the fair and true view as capital work in progress is not contributing to the revenue as it is still to be placed for “**put to use**”. It is suggested that Capital work in progress should be eliminated while computing total capital employed rather it should be part of reconciliation item.
- i. In Proforma H, the information like **at maximum rate per unit charged** and **at lowest rate per unit charged** is sought. Collection of such information at this level is not possible. It is therefore, suggested that the same should be sought at gross revenue level in place of as mentioned above.
- j. In Proforma J, Number of Internet subscribers are sought in Access Service (Wireless, WLL and Wireline). It is difficult to provide number of subscribers using the internet service out of the total subscribers. This requirement should be done away with.
- k. In Proforma I, details of reconciliation items need to be annexed while submitting reports. Sometime service providers give different interpretation to one item and force to treat non cost item as cost item. To avoid such confrontations, indicative list, on the basis of ASRs submitted to authority, of all non cost items should be provided in the guidelines.

3. Detailed guidelines to be issued by TRAI on the following matters :

- a. There are instances when operations of some circles have to be closed and License thereof has to be surrendered for one reason or other. In such cases, operation and capital expenditure has to be incurred for winding up or resumption of service. These expenditure also includes share of corporate office cost. There should be clear guideline how these expense be treated while preparing report i.e. whether it should be a part of cost or reconciliation item. Similarly there should be guidelines for treatment of fixed assets comprising of network elements, administrative blocks etc.
- b. New product BWA service has been introduced under draft ASR regulation 2016 for using 2300 MHz spectrum. It is requested to provide details guidelines for what nature of revenue to be taken, which type of cost to be covered, what type of network element

- required for providing this service and how the capital employed to be allocating to this service.
- c. Details guidelines to be issued by TRAI on right to use radio-frequency spectrum/Sharing of Spectrum regarding revenue, Cost and Capex accounting.
 - d. There are situations when long term borrowings are due for payment in the next financial year and these are shifted to short term borrowings at the end of current financial year. Due to this reason total capital employed of the company comes down drastically and shows abnormal return on capital employed. But actual situation is different i.e. repayment of such long terms loans are met out of the funds of fresh equity for fresh loans resultant thereof will be no effect on capital employed. It is, therefore, suggested such situation should be considered by authority and necessary guidelines should be issued to nullify the effect of repayment long term borrowings in next financial year in the total capital employed in current year.

Thanks & Regards

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