Comments/Views on the draft Regulations and Guidelines on 'The Reporting system on Accounting Separation Regulations, 2016'

Sistema Shyam TeleServices Limited (SSTL) welcomes the opportunity extended by TRAI to comment on its draft Regulations and Guidelines on 'The Reporting system on Accounting Separation Regulations, 2016. Please find below our comments on the same:

A. **Replacement Cost Accounting (RCA)** – As per proposed guidelines the authority has proposed to continue the Accounting Separation Reports based on replacement cost accounting on every second year in addition to historical cost accounts. RCA are required only for the purpose of valuation of assets at current cost. RCA model is used for deriving the tariffs and some wholesale charges like port, Infrastructure and IUC charges etc. Since most of the tariffs are already self-controlled and also being calculated based on bottom up approach, replacement cost accounts does not have much relevance. It is suggested that submission of ASR based on RCA model should be done away with.

B. **Definition of "On Net Calls" –** As per proposed guidelines definition of on net calls has been changed and the same has been limited to the calls within same licensed service area. It is suggested that previous definition of on net calls should be reinstated as calls terminating on same network in other circles also fall under on net calls.

C. **Accounting Separation Manual (ASM)** – As per proposed 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 annually either at the beginning of accounting year or along with submission of accounting separation records.

D. **Adoption of ASR by Board of Directors –** With reference to Point No. 7 .2 regarding the adoption of ASR by Board of Directors, it is recommended that adoption of ASR by the Board of Directors should be done away with since the ASR is prepared based on Audited Financial statements and the Audited financial statements are already adopted and approved by the Board of Directors.

E. **Product defined in Schedule I -**

a. Access Service Full Mobility and WLL should be merged as one service.
b. Intra Circle Roaming – Intra Circle Roaming is basically a whole sale revenue, it is suggested that one more sub product under whole sale revenue should be added.

F. **Uniform Basis of Allocation and Apportionment**

1. **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 & apportionment of corporate center cost across circles. It is suggested that specified guideline should be prescribed for allocations.

2. **Basis of Allocation & Apportionment of Common Fixed Assets** –TRAI should prescribe a uniform basis of allocation and apportionment for the following
   a. Common Network Elements used by two or more than two services.
   b. Land & Building, Furniture & Fixtures, Office Equipment and other such Common Non Plant & Machinery Assets used by two or more than two services.
   c. Current and Non-Current Assets used by two or more than two services.

G. Submission of Reports

1. Online submission of Reports – ASR reports should be submitted to TRAI in Online mode like XBRL along with linked excel files saved in a CD-ROM. E-submission will be more eco-friendly. Hard copies take a lot of time as well as resources.

H. Financial and Non-Financial Proforma –

1. **Proposed Changes Need to do in Proforma' s** – We Suggest to TRAI to make Following changes in Schedule I of Proforma.
   a. Proforma C & D –Proforma C & D can be merged and single proforma to be used for allocation of Network Cost and Supportive function cost.
   b. Proforma B, S. No. 2.6 - Network Operating Cost should be omitted as Proforma B relates to product cost and not Network cost.
   c. 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.
   d. 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.
   e. Proforma G, Uniform basis should be prescribed for allocation of capital employed.
   f. 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 whether pass through charges should be allocated to this product or not, if "Yes" please specify guideline for allocation.
   g. 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 items (proforma I). It is also suggested that Gain on Sale of Fixed Assets should also be formed part of reconciliation items.

h. **In Proforma A, B, C and D, "Bank Charges"** under the head of Finance Charges should be the part of reconciliation items (proforma I).

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 F – Capital Employed, it has been mentioned that the same has been aligned with the Companies Act 2013, but proforma F, speaks about current assets and current liabilities only. It does not speak about noncurrent assets and noncurrent liabilities. Clarity on the same is required.

2. **Non-Financial Information** –

a. In Number of Subscribers, Information for Urban and Rural Subscribers has been required. It is suggested that there should not be any separation for Urban and Rural Subscribers.

b. 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.

c. In Calculation of Number of tower details, whether Aggregation and repeater sites to be included.

d. Classification of SMS/MMS counts should be provide in national and International rather than On net/ Off Net Terminating / Off Net Originating

e. In Wireline - classification of Details of DEL (Direct Exchange Line) should be omitted

I. Others –

1. **Treatment of license surrender Circles Cost**: There is no prescribed guideline for treating of OPEX, CAPEX expenses, current assets and liabilities of license surrender circles. It is not specified whether the same should be considered as a reconciliation item or any other specific treatment.

2. **For all services :** We would like to request to minimize the network element which is appearing in Proforma E, because total network cost are allocated on all network element which does not seem correct.

3. **Rate for calculation of Weighted Average Cost of Capital (WACC)** – As per Regulation, the service providers are required to report their WACC in proforma F as per formula as given in regulation. There are no specified guidelines for determining rate of cost of debt and Cost of equity. It is suggested please specify guidelines for same.

4. **Concept of materiality** – As per current regulation companies need to submit ASR for each and every services 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 .

5. **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. The data being used for preparation of both reports is inter changeable. Preparation of both reports is cumbersome & time consuming activity. It is suggested that there should be one guideline for both the reports.