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Sent: Friday, 10 February 2012 4:17 PM
Subject: Draft 'The Reporting System on Accounting Separation Regulations, 2012'

TVR/VIL/008

10 February 2012

Smt. Anuradha Mitra

Pr. Advisor (FA & IFA)

Telecom Regulatory Authority of India

Mahanagar Doorsanchar Bhawan

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New Delhi 110002

Dear Madam,

Draft 'The Reporting System on Accounting Separation Regulations, 2012' – Views/Suggestions regarding

This has reference to your letter No.16-07/2010-FA dated 16th January'2012 on the above subject.

Please find enlosed the Vodafone's comments on the Draft 'The Reporting System on Accounting Separation Regulations, 2012' for your kind consideration.

Kind regards,

Sincerely yours,

T. V. Ramachandran

Resident Director

Regulatory Affairs & Government Relations

Cc : Dr. J. S. Sarma, Chairman, TRAI

: Shri R. Ashok, Member, TRAI

: Shri R. K. Arnold, Member, TRAI

: Shri Rajeev Agarwal, Secretary, TRAI

: Shri Sudhir Gupta, Pr. Advisor (MS), TRAI

10th February'2012

Vodafone's Comments on

Draft 'The Reporting System on Accounting Separation Regulations, 2012'

Overarching comments

Vodafone welcomes the review of the ASR Regulations and the acknowledgement that the regulations needed to change to better reflect the services supplied by the telecommunications industry and the regulatory purposes which the regulations support.

We further welcome the commitment to rationalise the reporting formats and to restrict the reporting requirement to relevant information only. However, while the Draft ASR Regulations 2012 area marked improvement upon the old regulations, , it does not drastically alter the compliance costs associated with collecting and preparing the base data for the ASRs. In addition, we have been advised by the Vodafone finance department and auditors that the obligations in the draft regulations will likely **increase compliance costs**.

Specifically, the following new obligations will increase compliance costs:

- ASR to be approved by audit committee and Board of Directors;
- Requirement to report video calls separately from voice calls which is not captured by current Vodafone reporting & accounting structures;
- MMS count is required for all customers but it is not currently available for contract customers;
- Data is proposed to be separated into 2G and 3G data. Such split is not possible under current Vodafone processes;

In summary, while there is a rationalisation in the number and design of proformae required, the draft regulations impose a raft of new requirements without any offsetting reduction in existing compliance burden.

Vodafone respectively submits that the Authority consider removing the additional obligations that increase compliance costs and further investigate the removal of unnecessary required, such as the requirement to report replacement costs. We outline in more details additional changes that should be made to the draft regulations below.

Vodafone believes there are only two reasons that information should be included in mandated filings with TRAI: 1) to be used in calculating regulated rates for services; and 2) to detect anti-competitive behavior. In the U.S., for example, the Federal Communications Commission does not require the filing of any accounting information by mobile providers.[1]

To the extent that TRAI intends to collect information for purposes of assessing anti-competitive behavior, it must be clear with respect to which information is collected for this purpose, and how the information will be used. Further, it is not clear that TRAI has used ASR information in the past to attempt to make such evaluations. Moreover, the industry is increasingly competitive and it would be difficult or impossible to engage in anticompetitive behavior in India today.

[1]Land-line companies still must file detailed reports under the Automated Reporting Management Information System (ARMIS) with the FCC, available at http://transition.fcc.gov/wcb/armis/ . Note that the FCC does not mandate mobile-to-mobile call termination rates; rather these are determined via commercial negotiation by the mobile providers.

Vodafone submits that the main purpose for the ASRs is to assist TRAI in its price regulation functions. We note that the main regulatory area is IUC. We also note that there are other areas such as cable landing station pricing which may require oversight from the Authority.

The ASRs should be focused on ensuring compliance with these regulations, while at the same time removing unnecessary data and minimising compliance costs to industry.

However, in saying that, there is still more to do to further consolidate the reporting requirements and remove irrelevant information.

Data Required for Calculating the MTC are Minimal

Clearly, the primary use of ASR information should be to support the cost calculation of the MTC. From this perspective, it is useful to step back to consider the minimum information necessary in order to calculate a national average MTC.

The relevant information was described by Dr. Parsons in the document (from the Sup Ct filing Nov 2011), but was provided to TRAI many months prior. **Annexure- R1:** Copy of Report titled "Using Accounting Data to Estimate the Cost of Call Termination in Telecommunications Networks" discusses four categories of costs:

A) Voice ***Traffic Sensitive*** (to be included in the numerator of the MTC calculation);
B) Caused by Other by Factors (e.g., lines, customers, ***retail***-related costs; to be excluded from the MTC);
C) Wholesale-specific costs (to be allocated only to wholesale call termination minutes, but empirically these costs may be negligible); and
D) Truly ***Common*** Costs (to be allocated to categories A and B above.

As a practical matter then, costs need to be assigned to three categories: A), B) and D). More specifically, one can think of assigning non-capital operating expenses to these three categories.[2] In addition, it is also important to assign capital assets to the A), B) and D) categories as well. Once capital assets are assigned to the three categories, the associated capital costs (depreciation and WACC – including associated taxes) can be assigned to the three categories as well.

One can then think of the accounting data matrix as having only 6 cells, as follow:

	Category A: Traffic Sensitive	**Category B: Retail & Other non-traffic sensitive**	**Cateory D: Common Costs, not specific to A or B (to be allocated to A & B)**
Operating Expenses	Ae	Be	De
Capital Assets, then translated to capital costs	Ac	Bc	Dc

Once operating expenses and capital costs are assigned to each of the three categories, the MTC can be calculated as ((traffic sensitive operating expenses (Ae) and capital costs of (Ac)) + (allocated share of common operating expenses and capital costs (portion of De & Dc)/("minutes").

[2] Technically in accounting, depreciation is an operating expense, but for convenience of discussion (and to match past terminology used by TRAI) it is treated as part of the capital costs.

Here “minutes” is the sum of all network minutes (originating, terminating and on-net) as well as a minute equivalent for services like SMS. Minutes could be obtained from the proposed Proforma J, section III.

As such, an accounting data template could be exceptionally simple - the six cells above plus “minutes”.

Vodafone believes that attempts should be made to best create information to populate the six-cell matrix above (and a measure of minutes). Specifically, Vodafone is of the view that the following improvements to the draft ASR Regulations 2012 could be made which will assist to achieve the above objectives.

Removal of Proforma C- Network elements are not necessary

The largest scope for consolidation is the removal of the new Proforma C. We note that this rationalises three old proformae, but the purpose of the sheet – to allocate costs to specific network elements – will not assist the ASR Regulations meet its stated purpose. Further, network elements can be deleted from all other Proformae (e.g., the bottom of Proforma D, allocations of departments to elements), and the ASR manual and regulations.

If the Authority does not remove Proforma C, we respectfully request the Authority state how Proforma C assists in populating the six-cell matrix above, or specifically how it can be used in the, assessment of anticompetitive behaviour.

The draft (page 6, section 4. (a) iii suggests that costs will be allocated to network elements and then allocated to products. However, this additional step is not necessary, even if allocations of costs to specific products were useful (this is discussed separately below). Moreover, here is an additional problem with requesting information by both product and network element – it can lead to confusion, double counting or undercounting, or other inconsistencies.

Consider a stylized (simplified) version of proposed Proforma E below.

Stylized Proforma E: Statement of Gross Bock, Depreciation and Net Block - Service				
	Plant and Machinery	**Computers**	**Vehicles**	**Office Equipment**
Network Elements				
1	**100**			
2	**125**			
3	**110**			
Products				
A	**150**			
B	**165**			
C	**145**			
Support Functions				
a	**75**			
b	**80**			
c	**90**			
Total	**1040**			

Any product (or virtually any product) requires the use of network elements. Therefore, should the gross block value for plant and machinery for Product A (shown as 150) include the costs of the network elements above (that are required to produce product A), or is that cell only intended to reflect the non-network element costs of Product A? Another way of posing the question, and illustrating the potential for confusion, is does the total of 1040 for plant and equipment equal the total value for the company, or is it greater than the total value of the company, since network elements values are captured both under network elements and under products?

In addition, operators may not have information corresponding to the network elements TRAI has defined. Even if TRAI were to collect data on network elements, the list of elements is somewhat too long and detailed.

Replacement cost reporting is not necessary

That draft regulations propose to continue the requirement to submit replacement cost reports every two years [Reg. 4(2)(b) & 5(1)(b)].

We reiterate that requirements under the ASR Regulations should be directly linked to specified regulatory outcomes; most importantly for verifying costs of regulated services like IUCThe replacement cost version of ASRs does not assist the Authority in achieving these objectives. We note that during past and current IUC debates no reliance has been placed upon replacement cost ASRs, whereas much of the debate has focused around the actual cost ASRs.

Allocation of revenues by product is not necessary.

Identification of costs for calculation of the MTC should be the primary purpose of the ASRs. Revenue information is not useful for such purposes. Therefore Vodafone respectfully submits that revenue categories (other than the aggregate categories of Proforma A) be removed from the Proforma (e.g., Proformae B and I). Similarly, any measures of profitability are also not necessary.

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Definition of VAS

The draft regulations introduce data services (2G & 3G) as distinct services under Schedule I. However, we note that the definition of value-added services (VAS) has not been updated to reflect this.

VAS is defined as services “which are offered to add value to the core services, the core services being voice calls, voice or non voice message and facsimile transmission” [Reg 2(xxix)]. This clearly includes data-based services as core services include only voice, SMS, MMS and faxes.

Consequently, there needs to be clarity regarding the distinction between what is to be included as data revenue & services and what should be considered VAS.

Cable Landing Service Services in Schedule I

We note that there are no product sub-classifications under the Cable Landing Service (IX) in Schedule 1. We submit that given the bottleneck nature of CLS and the potential for anticompetitive behaviour and high pricing, the ASR Regulations should include greater detail.

Specifically, we submit that the following service sub-classification be included in schedule I:

- Collocation;
- Access facilitation installation; and
- Access facilitation rental.

The above product classification is consistent with the information the Authority requested in the July CLS consultation. We believe that the ongoing collection of this information will assist the Authority to monitor the competitiveness of the various CLS throughout India.

In contrast to the other product-specific data requested by TRAI, this data is clearly relevant to establishing regulated rates.

Network Operating Cost in Schedule III

We note that the cost category "Network Operating Costs" appears in Proforma A but not in Proforma B or Proforma D. We recommend that this category be inserted into all Proformae (that are retained).

Depreciation and Asset Lives

New Proforma E deals with gross block, booked depreciation and net block. Ideally, the ASR process will not only allow the identification of total asset values by category A), B) and D), but also allow differential depreciation rates to apply to assets that are in each of those three categories. It may not be necessary to do this within the ASRs themselves, but rather, it may be possible to do a special study of typical assets and asset lives utilized within each of the three categories.

In addition, to the extent that network elements are utilized in the ASRs, it would be best to request the average economic life for each of the network element categories (i.e., for the MSC) to calculate annual depreciation. As a warning, the economic lives must be applied to the gross block (implicitly assuming straight-line depreciation) – i.e., they cannot be applied to the net block values. Alternatively, one could request average REMAINING life - that could be applied to net block. However, operators may not be able to readily calculate remaining life by the categories required.

Vodafone supports documentation of allocations basis

Draft chapter 3 describes the requirements to create a manual to document allocations and the methods and basis of allocations. However, to the extent possible, the allocations (and their justification) should revolve around allocations to the six cells described above. In particular, descriptions should be provided of what is considered (A, traffic sensitive); (B, retail or other non-traffic sensitive); and (C, common).

Include an MTC calculation tab. The MTC can be calculated outside of the ASR, with ASR information. However, it is best if TRAI includes a separate tab within the ASR, that provides a template for the calculation of the MTC. For further transparency a copy of the relevant portion of the company's manual describing basis of allocations/assignments must be included. Such a tab, with at least tentative reference to the proformas utilized, will help with interpretation of the proposed template.