



VIL/LT/15-16/673
28th March 2016

Telecom Regulatory Authority of India,
Mahanagar Doorsanchar Bhawan,
Jawaharlal Nehru Marg (Old Minto Road),
New Delhi-110002.

Kind Attention : Ms. Vinod Kotwal, Advisor (F&EA)

**Subject : Response to the Draft Reporting System on Accounting Separation Regulations, 2016”
& “Draft guidelines for the Reporting System on Draft Accounting Separation
Regulations, 2016” dated 22nd February 2016**

Dear Madam,

This is with reference to the Draft Regulations & Draft guidelines for the Reporting System on Accounting Separation Regulations, 2016 dated 22nd February 2016

We are pleased to submit our comments and views on the Draft “The Reporting System on Accounting Separation Regulations, 2016” & “Guidelines for the Reporting System on Draft Accounting Separation Regulations, 2016” dated 22nd February 2016.

We hope that our response will merit your kind consideration.

Thanking you,

Yours sincerely,

For **Vodafone India Limited**

P Balaji
Director -Regulatory, External Affairs & CSR

Enclosed: A/a

Copy to:

1. Shri. R.S. Sharma ,Chairman, TRAI
2. Shri. Anil Kaushal Member , TRAI
3. Shri. Sudhir Gupta ,Secretary , TRAI
4. Shri. S.K. Mishra ,Principal Advisor (F&EA), TRAI

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Vodafone's Response to TRAI's Draft "Reporting System on Accounting Separation Regulation, 2016" & "Guidelines for the Reporting System on Draft Accounting Separation Regulations, 2016"

1. BWA services

1.1 As per Regulation 4(1) (a) (ii), Service Providers are required to submit the profit and loss statement in Proforma B of Schedule III; in respect of each product specified in schedule I.

1.2 We note that in the Schedule I of the Accounting Separation Regulations 2016, BWA services have been introduced as a "product" in the column (3) of the Schedule I (Please refer to page no 19 of the regulations), it may be noted that we believe that BWA services should be classified as separate service (as in 2010, 2300 MHz spectrum if at all can be segregated) with in full mobility in order to be able to identify any cross subsidization practices , predatory pricing and anti-competitive behavior of service providers .

1.3 **Therefore "BWA Services" should be specified in column (1) under the heading of 'name of Telecom service' of the schedule I of the regulations and accordingly products/ components shown in column (3) of schedule I should also be made applicable for 'BWA services'. Furthermore BWA service providers should also be mandated to submit their product-wise P&L statement (Proforma B) and statement of related party transaction(Proforma H) as applicable in the case of Full mobility, WLL and Wireline service providers.**

2. Sharing/Leasing of Towers

2.1 As per Regulation 1(3) , Accounting Separation regulations shall be applicable to all service providers, having aggregate turnover of not less than rupees one hundred crore, during the accounting year from their operations under the licenses issued under section 4 of the Indian Telegraph Act, 1885 (13 of 1885).

2.2 However in the draft guidelines at Page No 28's footnote, it has been clarified that if a licensed telecom service provider is also providing infrastructure services i.e. Tower business and dark fiber, in such cases, service provider would have to provide information on his tower business and dark fiber as well under the applicable telecom service, it is mainly covered under the heading of "sharing/leasing of Towers" under column 3 of Schedule I.

2.3 It is submitted that sharing /leasing has been wrongly put as product under Access services. It may be noted that this activity being in the nature of a cost sharing involving reimbursements (which has been incurred on behalf of others and it covered under Balance sheet item) should not be covered under P& L account. **Hence, we request that this may be removed from Schedule I Column 3.**

3. Out Roaming

3.1 It is suggested that Roaming Product be retained as in the 2012 Accounting Separation Regulations. Alternatively, the words in the bracket viz "by own subscribers outside home service area" may be deleted so as to encompass intra circle Roaming arrangements that are permitted under license.

4. In- Roaming

4.1 It may be noted that In-Roaming is not a wholesale interconnection as roaming agreements under license are bilateral & mutually agreed. Hence Clause j(vi) of Schedule I, Column 3 may be deleted.

5. Rental/Activation/ One time /Recharge Fees-

5.1 We would like that TRAI may issue a guidelines/ cost drivers regarding the cost allocation/ apportionment in the case of Product/ component shown under the heading of **Rental or fixed Charges**. Since this product is non-traffic sensitive, therefore, identification of activity based costing in this case is quite challenging.

5.2 Furthermore, it is clarified that recharge fees includes only processing fee and does not include any other charges such as Talk time etc.

6. Capital Work In Progress under Proforma-F (Capital Employed Service)

6.1 We note that Right to use spectrum/Auction Money for Spectrum and License fee/one time entry have been shown under the heading of Capital Work in Progress, however, as per generally accepted accounting practices, these should be the part of fixed assets being an Intangible assets unless these have not been allocated to TSPs or have not been put to use. Therefore, it may be modified accordingly.

7. Treatment of Repayment of Loan fund with in a Year

7.1 We note that contradictory to past practices, it is now proposed that for the purpose of estimation of capital employed of telecommunication services, the repayment of loan fund with in a year is to be considered as a part of current liabilities. It is understood that this is being done on account of/for the purpose of alignment with companies Act 2013. It may be appreciated that the proposed/changed approach will result in under estimation of real costs & will not meet the purpose of the ASR as stated by TRAI.

7.2 We believe that regulatory financial statements are prepared for purpose of estimation of true & fair cost of services / products, product analysis, market analysis or to examine the anti –competitive behavior of service providers, whereas under the companies Act, 2013, financial statement are prepared to reflect the true& fair view of the state of affairs of the company for shareholders prospective. **Therefore, it is suggested that for the purpose of ASR, repayment of loan should not be considered as a part of current liabilities.**

8. Replacement Cost Accounting

8.1 As per Regulation 4(2) on Reports, the authority requires that in addition to the reports prepared based on Historical Cost Accounting, reports prepared based on Replacement Cost Accounting are also required for every second year.

8.2 We understand that Replacement Cost Accounting report have not been used for any regulatory decision till date, it may be appreciated that arriving at such reports is a very costly exercise involving significant resources which increases regulatory cost. We are of the view that the replacement cost accounting based reporting may be withdrawn.
