Information & Communication Technologies Authority

Consultation Ref.: ICTA/CP/2023/02

CONSULTATION PAPER ON FRAMEWORK FOR ACCOUNTING SEPARATION

05 April 2023

EXPLANATORY MEMORANDUM

Considering that:

1) The ICT Authority (ICTA) has been established with an object under Section 16(d) of the ICT Act 2001 (hereafter referred to as the Act), as amended, "to *ensure that information and communication services including telecommunication services are reasonably accessible at affordable cost nationwide and are supplied as efficiently and economically as practicable and at performance standards that reasonably meet the social, educational, industrial, commercial and, other needs of Mauritius*";

2) The ICTA has been established with an object under Section 16(f) of the Act "*to promote the efficiency and international competitiveness of Mauritius in the information and communication sector*";

3) The ICTA has a function under Section 18(1)(c) of the Act to "*promote and maintain effective competition, fair and efficient market conduct between entities engaged in the information and communication industry in Mauritius and to ensure that this Act is implemented with due regard to the public interest and so as to prevent any unfair or anti-competitive practices by licensees*";

4) The ICTA has a function under Section 18(1)(k) of the Act to "*establish and monitor the filing of reports, including financial, costing and other related reports, by licensees on the provision of information and communication services, including telecommunication services, in conformity with such guidelines, directives and determinations as the Authority may issue or review from time to time*";

5) In order to accomplish the aforesaid objects and perform its regulatory functions effectively, as envisaged under the Act, the ICTA hereby recognizes the need to implement an appropriate framework for Accounting Separation for commercial telecommunication services.

The ICTA resolves to:

1. make available for public consultation this Consultation Document Ref: (**ICTA/CP/2023/02**);
2. invite views, contributions and comments on the Consultation document.

GUIDELINES ON RESPONDING TO THIS CONSULTATION

1. The Consultation Paper has been divided into Chapters dealing with specific topics. Your responses are solicited with respect to the questions for consultation at the end of each chapter. A complete list of the questions on which the response is sought in the consultation has also been provided as Chapter VII. Respondents are encouraged to ensure that the answers provided with reference to the questions raised in the consultation are accompanied with detailed justification.

2. It is requested that special attention may be given to the proformas for reporting statements as provided for in Annexure B. Your comments in this regard will be very valuable.

3. You are invited to send your written views and comments on the issues raised in this document by email to info@icta.mu at latest by **16h00** on **05 May 2023**.

4. Should you be including confidential information as part of your responses, you are requested to clearly identify the said confidential materials and to place same in a separate annex to your response.

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Chapter I
Introduction

1.1 Need for Accounting Separation

1.1.1 In line with its mandate as set out in the Act[1], the ICTA has the responsibility to, *inter alia*, create a regulatory environment to:

- *promote and maintain effective competition, fair and efficient market conduct between entities engaged in the information and communication industry in Mauritius and to ensure that this Act is implemented with due regard to the public interest and so as to prevent any unfair or anti-competitive practices by licensees;*
- *ensure that information and communication services including telecommunication services are reasonably accessible at affordable cost nationwide and are supplied as efficiently and economically as practicable and at performance standards that reasonably meet the social, educational, industrial, commercial and, other needs of Mauritius; and*
- *to promote the efficiency and international competitiveness of Mauritius in the information and communication sector;*

1.1.2 As such it is essential that financial information is analyzed, specifically for regulatory purposes. In order to perform these functions effectively, the regulator needs disaggregated financial data from telecom companies. The purpose of 'Accounting Separation' (AS) is to provide an analysis of information derived from accounting records to reflect as closely as possible the performance of various segments of the business of a licensee (as if they are operated as separate businesses).

1.1.3 The regulator needs to foster competition and also monitor and prevent anti-competitive behavior by any licensee. For this purpose, the ICTA would require a significant amount of financial information. A key source of such information is the set of separated regulatory

[1] https://www.icta.mu/documents/2022/09/ict_act.pdf

accounts that an operator may be required to maintain and report. It is always possible to carry out a detailed exercise each time the need for such information is felt. However, instead of making a de novo exercise each time, it is prudent if a permanent arrangement is made so as to generate accounting statements for regulatory and management purposes on a regular basis.

1.1.4 Such accounting statements create capabilities of analyzing costs, revenues and capital employed in major areas of a licensee's business. Appropriate accounting procedure is often one of the keys for realizing the potential gains of restructuring the sector after opening it up to competition. Working out the cost of providing a particular service is, therefore, the first and most important step in creating a fair, transparent and just regulatory environment.

1.1.5 Financial reporting at the group/company level presents the aggregated information, which generally does not provide the Regulator with sufficient details required for regulatory purposes such as:

- measuring financial performance of products/network services;
- monitoring licensees' returns on products/network services;
- identifying cross subsidization practices;
- implementing cost based inter-operator arrangements; and
- estimating the net cost of universal service provision or obligation.

1.1.6 The current level of information provided to ICTA such as annual reports and quarterly traffic data do not present a complete picture of a licensee's operation. During various attempts of establishing a cost-based regime including periodic tariff-rebalancing exercises and computation of IUCs, the lack of detailed information proved to be a major hindrance in calculation of such service specific costs. The aggregated information provided by service providers has limitation for the purpose of tariff and cost analysis. There is therefore a need for more detailed and disaggregated information. Implementation of an AS framework will help the Authority to collect, assess and evaluate information in a more structured manner, thereby reducing pressure generated from ad-hoc requests for information.

1.1.7 The framework on AS, being advocated by the ICTA, is based on international best practice and benefits from the considerable amount of international experience and research in the development of separated / regulated accounts. For instance, the EU has published the most comprehensive set of guidelines on AS, which are set out in the *Commission of the European Communities Recommendation of 8 April 1998 on interconnection in a liberalized telecommunications market, Part 2 – Accounting separation and cost accounting*[2].

1.2 The legal mandate to introduce an Accounting Separation Framework

1.2.1 The Authority is empowered under Section 18(1)(k) of the Act[3], to "*establish and monitor the filing of reports, including financial, costing and other related reports, by licensees on the provision of information and communication services, including telecommunication services, in conformity with such guidelines, directives and determinations as the Authority may issue or review from time to time;*"

1.3 The Concept of Accounting Separation

1.3.1 Telecommunications operators typically operate vertically integrated businesses, with the various business activities having relationships between, or dependencies upon, each other. When competition is introduced into a market, it becomes *necessary* to make visible the relationships between the various business activities contained within the overall integrated business of the operator. This is to ensure that the dealings between the business activities, within the licensee's business, are dealt on the same basis as dealing with other operators.

1.3.2 There are typically two approaches to the issue:

- physical separation of the business activities, (known as structural separation); and
- separation of the business activities only for accounting purposes, (known as accounting separation).

[2] https://op.europa.eu/en/publication-detail/-/publication/56b82b5c-c672-4b6d-921f-f9426e8d9167
[3] https://www.icta.mu/documents/2022/09/ict_act.pdf

1.4 Structural Separation

1.4.1 Structural separation means the division of the integrated telecommunications business of a licensee into two or more separate legal entities so that each entity independently performs distinct licensed telecommunications activities and owns and has day-to-day control over the assets and operational capabilities, including employees, by means of which such activities are carried out.

1.4.2 In a small market such as Mauritius, the imposition of structural separation could result in significant inefficiencies, with central functions having to be duplicated and extra resources having to be used to manage intra-operator billing. Owing to the relative cost and difficulty of achieving structural separation, and as is common with most countries, the ICTA has chosen to seek only the implementation of an AS framework.

1.5 Gains from Accounting Separation

1.5.1 There are major advantages of introducing an AS framework as follows: -

- Provides critical information to the licensee on the performance of its individual / distinct revenue and cost centres or business units within the company;
- Facilitates the determination of rates that may be fairly charged by any licensees to competitors that seek to interconnect with or gain access to its network.
- Provides financial information about businesses for use by the industry, consumers and other stakeholders. The information through AS is more focused than the statutory accounts which are more focused on the requirements of investors only.
- Assists regulation in a variety of ways, such as:
  - Monitor performance against the assumptions underlying a current price control for retail and wholesale services;
  - Enable more informed tariff approvals.
  - Decide future price controls for both retail and wholesale services;
  - Informed decisions regarding the level of interconnection rates; and

- Assist in the detection (or verification of the absence) of certain anti-competitive behavior such as unfair cross-subsidization and discrimination in both retail and wholesale markets.
- Increases transparency of actions for both the operators and the regulator.

1.6 Adoption of Accounting Separation Frameworks on the international scene

A non-exhaustive list of countries where an AS framework has been adopted for the telecommunications sector are as follows:

1.6.1 **India:** Telecom Regulatory Authority of India (TRAI) first issued the Accounting Separation regulations for the telecommunications industry in 2004. After subsequent amendments, the Accounting Separation Regulations[4] for the telecommunications industry are still applicable in India.

1.6.2 **Singapore:** The Infocom Media Development Authority (IMDA) of Singapore has implemented the Accounting Separation Guidelines[5] in the telecommunications industry since 1997.

1.6.3 **Trinidad and Tobago:** The Telecommunications Authority of Trinidad and Tobago (TATT) has implemented Accounting Separation[6] for the telecommunications sector since 2012.

1.6.4 **Malaysia**: The Malaysian Communications and Multimedia Commission (MCMC) has adopted Accounting Separation[7] in the telecommunications sector since 2016.

[4] https://trai.gov.in/sites/default/files/Accounting_Separation_Regulations_2016Eng10Jun2016.pdf
[5] https://www.imda.gov.sg/-/media/imda/files/regulation-licensing-and-consultations/codes-of-practice-and-guidelines/5-revisedasg.pdf
[6] https://tatt.org.tt/Portals/0/Documents/Accounting%20separation%20guidelines%20February%202012.pdf
[7]https://www.mcmc.gov.my/skmmgovmy/media/General/pdf/Guidelines_Implementation_Acct_Separation.pdf

1.6.5 **Nigeria:** The Nigerian Communications Commission (NCC) has implemented Accounting Separation[8] for the telecommunications sector since 2020.

1.6.6 **Saudi Arabia:** The Communications and Information Technology Commission (CITC) has implemented Accounting Separation[9] for the telecommunications industry since 2019.

1.6.7 **Belgium**: The Belgian Institute of Postal and Telecommunication Services (BIPT) has been imposing Accounting Separation[10] requirements on identified SMP (Significant Market Player) since 2004.

1.6.8 **UK:** The Office of Communications **(**OFCOM) imposed the regulatory financial reporting obligations[11] on British Telecom (BT) and Kingston Communications in markets where SMP (Significant Market Player) was demonstrated in 2004. The regulatory financial obligations[12] on BT continue in the markets in which it is determined SMP.

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[8] https://ncc.gov.ng/docman-main/licensing-documents/licensing-frameworks/837-guidelines-on-the-implementation-of-an-accounting-separation-framework/file
[9] https://www.cst.gov.sa/ar/Decisionsoffers/Decisions/Documents/attach403.pdf
[10] https://www.bipt.be/operators/accounting-separation
[11] https://www.ofcom.org.uk/__data/assets/pdf_file/0034/55969/finance_report.pdf
[12] https://www.ofcom.org.uk/__data/assets/pdf_file/0029/216794/statement-2021-26-wholesale-voice-markets-review.pdf

Chapter II

Accounting Separation

2 Level of Accounting Separation

This chapter sets out the level of AS that is considered appropriate for licensees in all service segments.

2.1 Stages of Accounting Separation

2.1.1 The accounts have to be separated in the following segments:

Licence-wise

- The non-telecom business of a licence has to be separated and shown separately.
- The accounts have to be separated for each telecom licence.
- This separation has been prescribed to measure financial performance of individual licences and to identify Cross Subsidization, if any, across licences.

Service-wise

- The term "service" means an information and communication service within a licence, which is priced or regulated separately.
- The separation of accounts of products/services is required, to make transparent the costs involved in the provision of that product/service.

Network Element-wise

- Separate the network cost into unbundled network elements.
- Unbundled cost of network elements provides the basis to study the cost of interconnection arrangement and also provides inputs for cost-based tariffs.

2.2 Categories of Licences

2.2.1 The AS framework would apply to all the public operators holding a licence for one or more of the following telecommunication services:

A. Public Switched (fixed) Telephone Network/Service Licence (PSTN)

B. International Long Distance Network Licence (ILD)

C. Public Land Mobile Network Licence (PLMN)

D. Internet Service Provider Licence

E. National Infrastructure Provider Licence

F. Networking Services Provider Licence (National)

G. Networking Services Provider Licence (International)

H. Public Mobile Radio Trunking System Licence

I. Payphone Service Licence

J. Alarm Monitoring Service Licence

K. Value Added Services Licence

2.2.2 Considering that the services offered and the potential size of the market would likely differ considerably across the different licences, the Authority is inclined to opt for simpler AS requirements for the following categories of licences:

A. Public Mobile Radio Trunking System Licence
B. Payphone Service Licence
C. Alarm Monitoring Service Licence
D. Value Added Services Licence
E. National Infrastructure Provider Licence

2.3 Broad Categories of Services

2.3.1 Based on the tariff approvals and other information available with the Authority, the Authority proposes that AS may be carried out within each licence under the following categories: -

Licence	Services
National Infrastructure Provider	No service sub-classification
Networking Services Provider Licence (National)	1. Wholesale National Bandwidth 2. Retail National Bandwidth 3. Colocation
Networking Services Provider Licence (International)	1. Wholesale International Bandwidth: a) IPLC b) IP Transit c) IP VPN d) Any other managed data services

Public Switch (Fixed) Telephone Network (PSTN) Licence	1. Retail Fixed Voice: a) Rental/Activation/Installation b) On-net Voice Calls c) Off-net Voice Calls (to fixed & mobile) d) SMS e) Value Added Services / Premium Services / Tollfree / Short Code Services f) PRI Services g) SIP Trunking 2. Wholesale Fixed Voice (Interconnection): a) Termination Voice Call b) Port Charges c) Transit Charges 3. Wholesale National Bandwidth 4. Retail National Bandwidth 5. Wholesale last mile/ local loop access 6. Any other managed data services 7. Access to Passive Infrastructure

Public Land Mobile Network (PLMN) Licence	1. Retail Mobile Services: a) Rental/One time/Installation/Recharge b) On-net Voice Calls c) Off-net Voice Calls (to fixed & mobile) d) SMS & MMS services e) Value Added Services / Premium Services / Tollfree / Short Code Services f) Roaming Out Services (Voice, Data & SMS) 2. Wholesale Mobile Services: a) Termination Voice Call b) Roaming In Services (Voice, Data & SMS) c) Transit Charges d) Sharing of Active and Passive Infrastructure e) Port Charges

International Long Distance (ILD) Network Licence	1. Outgoing ILD Voice 2. Incoming ILD Voice 3. Transit of Calls through Mauritius 4. Wholesale International Bandwidth: a) IPLC b) IP Transit c) IP VPN d) Any other managed data services 5. Retail International Bandwidth: a) IPLC b) IP Transit c) IP VPN d) Any other managed data services 6. Cable Landing Station: a) Colocation b) Cross- Connection
Public Mobile Radio Trunking System Licence	No service sub-classification

Internet Service Provider Licence	1. Residential Internet 2. SME Internet 3. Business Internet 4. Internet of Things 5. Mobile Internet Services 6. M2M Services
Payphone Service Licence	No service sub-classification
Alarm Monitoring Service Licence	No service sub-classification
Value Added Services Licence	No service sub-classification

Note: *The above are the category of services which the Authority considers appropriate at this time, but may be changed in future to accommodate evolving circumstances.*

2.3.2 It may be noted that as discussed in para 2.2.2 above, there is no service sub-classification for the following licences:

A. Public Mobile Radio Trunking System Licence
B. Payphone Service Licence
C. Alarm Monitoring Service Licence
D. Value Added Services Licence
E. National Infrastructure Provider Licence

2.3.3 This implies that the holders of the above-named licences would only have to do a simpler licence-level of AS, compared to much more detailed service-level reporting requirements that would be incumbent upon the other licensees.

2.4 Relevant Network Elements

2.4.1 Each service requires or uses certain network elements. The network elements may be defined as the legitimate nodes in the network through which the connection is provided or the traffic is carried out. However, all network elements are not used for all the connections and for all types of traffic. The network elements for a wired line connection are different from the Fixed Wireless Access (FWA) connection. Similarly, the network elements used for a fixed to fixed call are different from that of a fixed to mobile or mobile to fixed call. Even for fixed to fixed calls, the network elements to be used may be different, e.g. for intra exchange calls and inter exchange calls.

2.4.2 The same network element may also be used for more than one product. In such cases the appropriate cost of each network element needs to be allocated to the respective products and through them to the services. For this purpose, appropriate cost drivers would have to be identified and applied.

2.4.3 **The major network elements for a public operator holding a National Infrastructure Provider licence are:**

(a) Earth stations, cables, wireless equipment, towers, posts, ducts, pits and others

2.4.4 **The major network elements for a public operator holding a Networking Services Provider (National) licence are:**

(a) Customer Premises equipment (Access Points, Router, switch, ONT, etc)

(b) Backhaul equipment (Microwave, fiber, etc

2.4.5 **The major network elements for a public operator holding a Networking Services Provider (International) licence are:**

(a) National & International Segment equipment, including leased circuits

(b) Cable Landing Equipment (including colocation, cross-connect infrastructure, etc)

(c) Fiber

(d) IT Equipment (Router, switches, etc)

2.4.6 **The major network elements for a public operator holding a Public Mobile Radio Trunking System licence are:**

(a) Backhaul equipment (Microwave, fiber, etc)

(b) Access network equipment, etc.

2.4.7 **The major network elements for a public operator holding a Payphone Service licence are:**

(a) Terminal equipment

(b) Leased lines, etc.

2.4.8 **The major network elements for a public operator holding a Value-Added Services licence are:**

(a) Application servers for Value added service

(b) Connection equipment and links with access provider (lease lines, etc)

2.4.9 **The major network elements for public operator holding an Alarm Monitoring Service licence are:**

(a) Customer Premises Equipment

(b) Backhaul transmission network (Microwave point to point, PLMN network, etc)

(c) Monitoring equipment, etc.

2.4.10 **The major network elements for a public operator holding a PSTN service licence are:**

(a) Equipment at Subscriber's end – Optical network terminal (ONT), ISDN, PABX, etc.

(b) Access Media between Local Switches & Subscriber's end – Optical Fiber, fixed wireless (cellular), etc.

(c) Local Switches – Local switch (including NGN and IP), etc.

(d) Media Gateway (MGW)

(e) National Segment equipment, including leased circuits

(f) SMSC (Short Message Service Centre),

(g) Application servers for Value added service, etc.

2.4.11 **The major network elements for a public operator holding a PLMN service licence are:-**

(a) **Core Network equipment, such as:** Mobile services Switching Centre (MSC), Media Gateway (MGW), Serving GPRS Support Node (SGSN), Gateway GPRS Support Node (GGSN), Mobility Management Entity (MME), Serving Gateway (SGW), Packet Data Network Gateway (PGW), Visitor location register (VLR), EIR (Equipment Identity Register), HLR (Home Location Register), AUC (Authentication Centre), Policy and Charging Rules Function (PCRF), etc.

(b) **Radio Access equipment, such as:** BTS (Base Transceiver Station), Node B, eNodeB, gNodeB, BSC (Base Station Controller), RNC (Radio Network Controller), etc.

(c) **Transmission Media, such as:** Transmission Media Between the Network Element i.e. OFC/Cable/Microwave, satellite links, submarine cable, Transmission equipment, etc.

(d) **Other Network elements** could include SMSC (Short Message Service Centre), HSS (Home Subscriber server), Application servers for Value added service, NMS (Network Management System), Billing servers, IUC servers/ ICB Server (Interconnect Billing Server), IN Servers, etc.

2.4.12 **The major network elements for a public operator holding an ILD service licence are:**

(a) Interconnection equipment and links (local)

(b) National & International Segment equipment, including leased circuits

(c) International Gateway equipment (including NGN/IP, MGW, etc)

(d) Cable Landing Equipment (including colocation, cross-connect infrastructure, etc)

(e) Last mile connectivity if any (e.g. NTE, etc)

(f) Fiber

(g) IT Equipment (Router, switches, etc)

2.4.13 **The major network elements for a public operator holding an Internet service provider licence are:**

(a) Customer Premises Equipment (CPE, ONT, etc)

(b) Access network links (Optical/Fiber, Cables/Wireless network etc.)

(e) MuX/ Switches

(f) Transmission network (microwave, fiber, etc)

(g) IP Core network (servers, routers, etc)

(h) Internet gateway

(i) International connectivity equipment etc

2.4.14 In the light of the foregoing discussion, the following questions arise for consultation.

Q1: Is the list of licences to which with the framework of Accounting Separation should be applicable, as given in section 2.2 above, appropriate?

Q2: If your answer to Q1 is no, please indicate the licences to which the Accounting Separation framework should not be applicable. Please support your answer with detailed justification.

Q3: Is the list of services to which with the framework of Accounting Separation should be applicable, as given in section 2.3 above, appropriate?

Q4: If your answer to Q3 is no, then

a. **please give a list of additional services to which the Accounting Separation framework should be applicable, and/or**
b. **Please give a list of the services to which the Accounting Separation framework should not be applicable.**

Please support your answer to Q4a and/or Q4b with detailed justification.

Q5: Do you have any comments on the different reporting obligations for different categories of licences, as discussed in paras 2.3.2 and 2.3.3 above? Please support your answer with detailed justification.

Q6: Is the classification and list of network elements to which with the framework of Accounting Separation should be applicable, as given in section 2.4 above, appropriate?

Q7: If your answer to Q6 is no, please give the classification and list of the relevant network elements to which the Accounting Separation framework should be applicable. Please support your answer with detailed justification.

Chapter-III

Principles governing Accounting Separation

3. This chapter sets out the principles[13], based on best practice, which the Authority believes all licensees should follow in order to allocate costs, capital employed and revenues to various network elements, products and services, for the purposes of preparing separate accounts. The following principles should apply when preparing separated regulatory accounts:

3.1 Cost Causation Principle

AS should be based on the principle of causation: that is, costs and revenues should be allocated to those services or products that cause those costs or revenues to arise. This requires the implementation of appropriate and detailed cost allocation methodologies. In practice, this means that licensees would need to:

- Review each item of cost, capital employed and revenue;
- Establish the driver that caused each item to arise; and
- Use the driver to allocate each item to individual network elements, products etc.
- All allocations are to be subject to review by the Authority.

3.2 Initiation through financial record

The process starts from information and data captured by the general ledger or other costing or financial systems operated by the company. These systems or accounts may record the data as soon as it has occurred.

3.3 Direct and Indirect Cost Allocation

The costs may be incurred directly or indirectly on any network element. When these are incurred directly it is appropriate to classify them as "cost pools" which may be core network or related functions. The cost which cannot be directly related with any network element is referred as unattributable costs. These are further explained below-

[13] These principles are also generally relevant to the determination of interconnection charges for unbundled interconnection services.

3.3.1 **Direct –**

These are the costs, which can be directly identified to services/ network elements. For example, in a PSTN network, cost of local exchange can be directly allocated to the account head of "Local Exchange".

3.3.2 **Indirect –**

(a) Various network elements

These costs cannot be directly allocated to any one-service/ network element as they may be shared by more than one (identifiable) services/ network elements. For example, in a PSTN network, access cables and exchange cables may share the cable trench. Hence, the cost of trench for laying cables will be shared by the network elements "Access – cable" as well as "Network- Exchange to Exchange Transmission".

(b) Related functions

These costs are necessary for the provision of services to the customer such as billing, maintenance, and customer services.

3.3.3 **Unattributable – Other functions**

These are the costs of functions that are not related to the provision of particular services but are an important part of the operations of the company holding the licence. Examples of such costs include planning, personnel, auditing and general finance.

3.3.4 **<u>Broad Categories of Cost</u>**

The information available in financial records under various heads such as salaries, wages, vehicles, office expenses, depreciation, etc may be re-grouped as operating costs, capital costs and accounting entries such as depreciation.

3.3.5 **<u>Cost Allocation Process</u>**

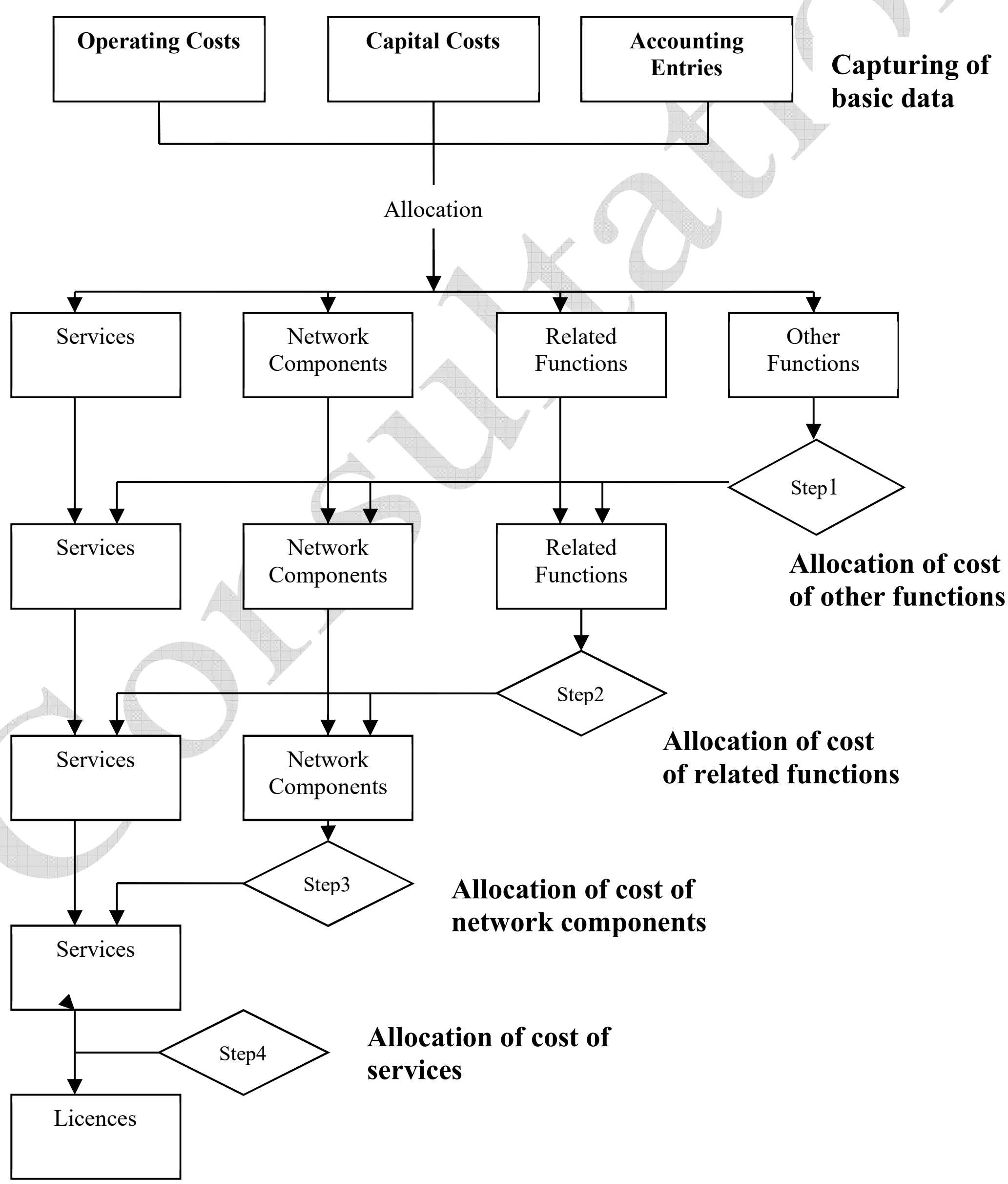
A typical cost allocation process would involve a series of steps which allocate indirect and unattributable cost in a tiered approach to eventually allocate costs to products and services. These step allocations are performed using appropriate drivers would work as below:

<u>Step-1</u>: The allocation of other functions to related functions, network elements and services;

<u>Step-2</u>: The allocation of the related function costs to services and the network elements;

<u>Step-3</u>: The allocation of network components to products or services;

<u>Step-4</u>: The grouping of products or services into licences;



Source: *COMMISSION RECOMMENDATION of 8 April 1998 on interconnection in a liberalised telecommunications market (Part 2 Ð Accounting separation and cost accounting)*[14]; Official Journal of the European Communities

3.4 In view of the foregoing, the following question is put up for consultation:

Q8: Do you have any comments on the principles governing Accounting Separation as discussed in Chapter-III above? Please support your answer with detailed justification.

[14] *Note-1: The actual allocation processes may vary depending on the licensee' organizational structure and the way(s) in which financial/operating data are captured.*

Note-2: Each of the allocation steps illustrated above could involve a number of detailed sub-steps. Where it is possible to perform an allocation via a number of direct or indirect attributions this is preferable to allocation through a single arbitrary step. It is anticipated that licensees will need to use sampling techniques and periodic activity reviews in order to allocate costs (including capital costs) to the products or services and subsequently to the licences or businesses.

Note-3: The allocation process can be simplified further by classifying costs into Direct and costs other than direct costs, which can be attributed to a particular product or network element through a non-arbitrary and verifiable cause and effect relationship.

Chapter-IV

Application of Allocation Principles

4. This chapter considers how certain issues that have been outlined as principles be approached in practice.

4.1 **Allocation of revenues and costs**

4.1.1 In line with the principle of cost causality, each item of revenue or cost should be allocated directly to related products and services, within each licensed business activity or disaggregated activity. In the case of revenue, it is relatively a more straightforward matter, as all licensees account for main activities in the normal course of business e.g. the rental, installation, local call charges, IDD call charges, etc are billed separately though a common bill is issued. The revenues which arise other than from main activity service provision activities, for example income arising from the investment of surplus cash, at a corporate level, should be allocated to individual business streams if direct linkage is possible otherwise they may be disassociated and shown as non-telecom investment and return.

4.1.2 The allocation of cost, however, is more complex. This arises because costs may be common between a range of products and services. For easier appreciation, costs would need to be grouped in three categories:

- Direct costs or directly attributable costs (these are directly attributable to a product or service OR those that can be unambiguously related to a service or product);
- Indirect costs or indirectly attributable costs (these though not directly attributable but can be attributed to a service or product or network element though a rationale relationship);
- Un-attributable costs (these costs are those which cannot fit into any of the above categories, but these can be related to a product or service through a relationship to other costs or other factors. It is expected that this category represents a low percentage of overall costs, certainly less than 10 percent, and generally to comprise corporate level overheads).

4.2 Allocation of Un-attributable Costs

4.2.1 A key requirement of the cost allocation process is to identify a method of allocating un-attributable costs on a basis that provides confidence that costs are fairly treated, both from the perspective of the licensee and its competitors, customers and other interested parties. There are several methods that might be applied, a number of which can give rise to significant complexity and cost.

4.2.2 It can be that provided the un-attributable costs are at the level expected, i.e. below 10%, then the same may be allocated on the basis of the 'Equal Proportionate Mark-up' method. In simple terms, it means that un-attributable costs are allocated in proportion to the sum of direct and indirect costs allocated to a product or service.

4.3 Allocation of capital employed

4.3.1 For the purposes of AS requirements, apart from the identification of revenues and operating costs, the capital employed in each of the separate business activities and disaggregated activities must also be reported. Capital employed allocation is also on the same basis as the revenue and cost allocation. The following guidelines are provided in this regard-

- Each identifiable element of directly applied plant and equipment should be directly allocated to the business activity where such a relationship exists or can be established.
- Apportionment of tangible assets that are used commonly for several activities requires the use of utilization allocation bases, such as floor area, relative periods of use and so on.
- Allocation of support equipment be carried out on pattern of directly applied plant and equipment, including a proportion for common use.
- Intangible assets require investigation of the history of the accounting treatment of transactions that give rise to the recognition of intangible assets.
- Purely financial investments must be investigated to ascertain the true nature of the investment. If the financial investment is not capable of allocation to a business activity or disaggregated activity it should be isolated.

- Working capital (broadly defined as current assets, less current liabilities) must be disaggregated into its component elements, i.e. cash, trade creditors, trade debtors and so on. These individual elements be allocated to individual business activities and disaggregated activities.
- Any use of arbitrary apportionments must be minimized.
- The dividend liabilities may not be allocated or apportioned.
- Treatment of various items of capital employed should be consistent over years to assist the calculation of average capital employed.

4.4 Principles for a Transfer Charging System

4.4.1 The business activities of all licensed services should have clear separate boundaries of operation. As such, in case of supply of services from one part of the licensee's business to another, a transparent 'transfer charging system' is to be applied and the charge for any service/product to another business within the licensee's corporate structure should be equivalent to the charge that would be levied if the product of service were sold externally rather than internally. For example, the retail activity must normally acquire services from the core network services activity. This rule is to apply regardless of the fact whether such service / product is, actually supplied externally or not.

4.4.2 The major principles to be applied, in order to take account of the costs of products or services that are used internally, requires that a system of transfer charges be deployed to identify those services and products provided from one business (for example, Local Access Network, Core Network and Retail) to another. For AS purposes, it should be assumed that licensee's retail business pays the same transfer charge for the same service as would apply to any other wholesale customers.

4.4.3 The Transfer Charging Principles which the Authority proposes are as below:

- Transfer Charges (revenues and costs) shall be attributed to cost components, services and main business areas or disaggregated businesses in accordance with the activities, which cause the revenues to be earned, or costs to be incurred. Transfer charges should also include the cost of capital.
- The attribution shall be objective and not intended to benefit any business or disaggregated business.
- There shall be consistency of treatment of Transfer Charges from year to year.
- The Transfer Charging methods used should be transparent. There should be a clear rationale for the Transfer Charges used and each charge should be supportable.
- The Transfer Charges for internal usage should be determined as the product of usage and unit charges.
- The charge for internal usage should be equivalent to the charge that would be levied if the product or service were sold externally rather than internally. For AS purposes, it should be assumed that the retail business pays the same interconnection charge for the same service as set out in the Reference Interconnect Offer.

4.4.4 In view of the foregoing, the following question is put up for consultation:

Q9: Do you have any comments on approaches for allocation of revenue, costs and capital employed as discussed in Chapter-IV above? Please support your answer with detailed justification.

Chapter-V

Reporting Requirements

5.1 **Cost Allocation Manual**

5.1.1 The licensee will need to prepare a cost allocation manual that details the methodology and basis of apportionment of various costs to the relevant cost and profit centres. It is important that the different licensees follow a uniform and consistent policy in this regard.

5.1.2 As such, the cost allocation manual will need to be prepared and submitted to the Authority for approval before the same is applied to implement AS at the level of the public operator holding a relevant commercial licence(s), as documented in Chapter 2.

5.2 **Reconciliation**

5.2.1 The reconciliation between the separated accounts and the statutory accounts is very important to assess their authenticity. As such, licensees will need to consolidate the accounts of the main business areas into a summarized set of accounts (the Consolidated Separated Accounts) and to submit reconciliation statements in conjunction with the corresponding statutory accounts.

5.3 **Statements in the Report**

5.3.1 The report of the licensee shall include:

a) A statement, showing profit and loss account including revenue, cost and return on capital employed for a licence.

b) A statement, showing product/service wise profit/loss account including revenue, cost and return on capital employed within a licence.

c) A statement showing network element wise total cost and its apportionment to various products/services.

d) A statement showing Other functions / departments wise total cost and its apportionment to various network elements and products/services.

e) A statement showing assets category wise gross block, accumulated depreciation, net block and depreciation for the year for various fixed assets.

f) A statement showing capital employed for a licence.

g) A statement showing allocation of capital employed for a licence to different Products/services.

h) A statement of Related Party Transactions.

i) A statement showing reconciliation of profit and loss account and capital employed covering all licensed and non-licensed services and area of operations with the company's audited annual accounts.

5.3.2 The above should be supported by:

- A statement of the accounting policies applied, including cost conventions;
- A statement of the bases of allocation and apportionment of revenue, operating costs and capital that have been applied, in accordance with the cost accounting manual approved by the Authority.
- A certificate from the Board of Directors of initially certifying that the separated accounts are correct, to be followed, when appropriate, by a statement, in appropriate form, by the auditors that certifies the representation of the separated accounts as being in accordance with published framework/guidelines and in accordance with the cost accounting manual approved by the Authority.

5.4 **Auditing**

5.4.1 The reports to be submitted to the ICTA would need to be audited by an independent auditor who is eligible to be appointed as statutory auditor under the Companies Act 2001.

5.4.2 The auditor in his report shall express his opinion on the following:

- Whether the AS statements for the reporting period have been properly drawn up in accordance with the rules and guidelines issued by ICTA on the framework for AS.
- Whether the AS statements for the reporting period have been prepared in accordance with the cost allocation manual approved by the Authority.
- Whether he has received all information and explanations necessary for the purpose of audit.

5.4.3 The ICTA would have the right to discuss and obtain additional information from the auditor.

5.5 In view of the foregoing, the following issues arise for consultation:

Q10: Are the reporting requirements, as proposed in Chapter-VI above, appropriate?

Q11: If the answer to Q10 is no, what modifications/alterations are suggested to the reporting requirements proposed in Chapter-V? Please support your answer with detailed justification.

Chapter-VI

Implementation of Accounting Separation Requirements

6.1 Applicability:

6.1.1 The AS framework would apply to public operators holding the following commercial licences:

- **A. Public Switched (fixed) Telephone Network Licence (PSTN)**
- **B. International Long-Distance Network Licence (ILD)**
- **C. Public Land Mobile Network Licence (PLMN)**
- **D. Internet Services Licence**
- **E. National Infrastructure Provider**
- **F. Networking Services Provider Licence (National)**
- **G. Networking Services Provider Licence (International)**
- **H. Public Mobile Radio Trunking System Licence**
- **I. Payphone Service Licence**
- **J. Alarm Monitoring Service Licence**
- **K. Value Added Services Licence**

6.2 Exemptions from compliance

6.2.1 The Authority may consider granting an exemption from the compliance with the AS framework, either fully or partially, based on an objective and easily verifiable criteria, such as, the turnover of the company, the period of operation of the said company, etc…

6.3 Schedule of Implementation

6.3.1 It is proposed to give the public operators a time of **six months from the date of implementation of the AS framework**, in order to put the required systems in place to be able to meet the corresponding reporting requirements set out under the said framework.

6.4 General Reporting Requirements

6.4.1 The general reporting requirements on which the AS framework would operate are as follows:

(a) AS Statements shall be submitted on annual basis.
(b) The reporting period would be the same as being followed by the operators for preparing the Annual Financial Accounts under the Companies Act.
(c) In case, the above reporting period consists of more than 12 calendar months a break-up of the results for the 12 months and the balance period is required.
(d) The reports are to be submitted within 6 months of the accounting year-end.

6.5 Enforcement of the Accounting Separation framework

6.5.1 In order to have an effective AS framework, there is a need to discuss the provisions of its enforcement so that the regulatory requirements of the framework are met.

6.5.2 Some of the enforcement mechanisms, as are applicable in other jurisdictions, are discussed below:

- **India**: The Accounting Separation Regulations[15], issued by the Telecom Regulatory Authority of India, provide for the imposition of a financial disincentive on the operators who either fail to submit, or submit false information.

- **United Kingdom**: For the violation of SMP conditions, OFCOM enjoys enforcement and penalty provisions[16] under Sections 95 and 96 respectively of the Communications Act, 2003.

- **South Africa**: The Independent Communications Authority of South Africa (ICASA) has implemented Accounting Separation for the reserved postal services[17]. The aforesaid regulations provide for penalties in terms of section 17E(2) of the Independent Communications Authority

[15] https://trai.gov.in/sites/default/files/Accounting_Separation_Regulations_2016Eng10Jun2016.pdf
[16] https://www.ofcom.org.uk/__data/assets/pdf_file/0034/79846/enforcement_guidelines.pdf
[17] https://www.icasa.org.za/legislation-and-regulations/accounting-separation-regulations-for-reserved-postal-services

of South Africa Act 2000, in case of violation of the Accounting Separation regulations by the licensed operator.

6.5.3 In view of the above, the Authority considers it prudent to devise and adopt a suitable enforcement mechanism(s) for the effective operation of the AS framework.

6.6 Submission of Reports

6.6.1 In order to enable the operators to furnish the AS reports in a timely and more organized manner, considering the voluminous data involved, the Authority is inclined to consider online mechanisms for the submission of the said reports, to facilitate the interactions with licensed operators.

6.7 Actions_after Consultation

6.7.1 Subject to comments received in the consultation process, ICTA intends to issue an AS framework, which would require all the eligible licensees, identified at Chapter 2, to:

- Submit a Cost Accounting Manual (within a period of three months) incorporating therein an allocation and apportionment methodology, for the preparation of separate accounts for each of the business activities and disaggregated activities. The Cost Accounting Manual will be subject to the approval of the Authority.
- Implement the requirements defined under the AS Framework within their companies in six months as from the time the AS Framework would come into operation.

6.8 In view of the foregoing, the following issues arise for consultation:

Q12: Are the Implementation proposals and timelines, as proposed in Chapter-VI above, appropriate?

Q13: If the answer to Q12 is no, what alternate implementation proposals and timelines do you suggest for the implementation of Accounting Separation? Please support your answer with detailed justification.

Q14: Based on the discussion in para 6.2 above, what can be the criteria for granting exemptions from compliance with the framework of Accounting Separation? Please support your response with detailed justification.

Q15: What methods/mechanisms can be considered for the online submission of the accounting separation reports? Please support your answer with detailed justification

Q16: What enforcement mechanism do you suggest for the implementation of the Accounting Separation framework? Please support you answer with detailed justification.

Chapter-VII

List of Questions for Consultation

7.1 In view of the issues discussed above, the following questions are being raised for the comments of the stakeholders. Responses to the questions are solicited with justification.

Q1: Is the list of licences to which with the framework of Accounting Separation should be applicable, as given in section 2.2 above, appropriate?

Q2: If your answer to Q1 is no, please indicate the licences to which the Accounting Separation framework should not be applicable. Please support your answer with detailed justification.

Q3: Is the list of services to which with the framework of Accounting Separation should be applicable, as given in section 2.3 above, appropriate?

Q4: If your answer to Q3 is no, then

a. **please give a list of additional services to which the Accounting Separation framework should be applicable, and/or**
b. **Please give a list of the services to which the Accounting Separation framework should not be applicable.**

Please support your answer to Q4a and/or Q4b with detailed justification.

Q5: Do you have any comments on the different reporting obligations for different categories of licences, as discussed in paras 2.3.2 and 2.3.3 above? Please support your answer with detailed justification.

Q6: Is the classification and list of network elements to which with the framework of Accounting Separation should be applicable, as given in section 2.4 above, appropriate?

Q7: If your answer to Q6 is no, please give the classification and list of the relevant network elements to which the Accounting Separation framework should be applicable. Please support your answer with detailed justification.

Q8: Do you have any comments on the principles governing Accounting Separation as discussed in Chapter-III above? Please support your answer with detailed justification.

Q9: Do you have any comments on approaches for allocation of revenue, costs and capital employed as discussed in Chapter-IV above? Please support your answer with detailed justification.

Q10: Are the reporting requirements, as proposed in Chapter-V above, appropriate?

Q11: If the answer to Q10 is no, what modifications/alterations are suggested to the reporting requirements proposed in Chapter-V? Please support your answer with detailed justification.

Q12: Are the Implementation proposals and timelines, as proposed in Chapter-VI above, appropriate?

Q13: If the answer to Q12 is no, what alternate implementation proposals and timelines do you suggest for the implementation of Accounting Separation? Please support your answer with detailed justification.

Q14: Based on the discussion in para 6.2 above, what can be the criteria for granting exemptions from compliance with the framework of Accounting Separation? Please support your response with detailed justification.

Q15: What methods/mechanisms can be considered for the online submission of the accounting separation reports? Please support your answer with detailed justification.

Q16: What enforcement mechanism do you suggest for the implementation of the Accounting Separation framework? Please support you answer with detailed justification.

Q17: Do you have any comments on the formats of statements for reporting as given in Annexure B? Please support your response with detailed justification.

Q18: Any other issues you would like to raise regarding the framework for Accounting Separation. Please support your response with detailed reasoning.

ANNEXURE A

Allocation of Revenue, Costs and Capital employed

Allocation of Costs

The possible basis of apportionment of operating costs for common/shared network elements, assets other than network elements and some other functions are given under various headings in the table below. These headings are illustrative for guidance only and are not intended to reflect the way in which a licensee records its costs. Licensees will need to develop cost allocation procedures specific to the way in which they currently capture and record costs, and to refine these over time, as appropriate.

Operating Costs on	Basis of Apportionment
Telephony Switches/Mobile Switching Center	To user licences in the ratio of traffic handled
Router/switch	To user licences in the ratio of data traffic handled
Buildings	To licences/services on the basis of the space occupied
Computers	Number of employees of each licence/service
Furniture and Fixtures	To licences on the basis of the space occupied
Vehicles	To licences on the basis average usage in last 3 years
Office Equipment	To licences on the basis of the space occupied
Employees cost	On the basis of head counts in each licence/service
Sales and Marketing Costs	On the basis of gross revenue of each licence/service

Administration Costs	On the basis of head counts in each licence/service
Finance & Accounts Department costs	On the basis of total direct identified costs of each licence/service
IT & EDP department cost	On the basis of head counts in each licence/service
Legal and Regulatory Costs	In the ratio of directly allocated costs to each licence/service

Allocation of Revenue

The revenue earned by providing various products and services are generally directly identifiable to each product based on accounting records / ledgers and the billing system information. In respect of certain revenue items if the direct allocation is not possible, in such cases the revenue shall be allocated on basis of causation principle.

Weighted Average Cost of Capital & Capital Employed

The WACC must be applied to a capital value for network components and other related assets in order to determine the return that needs to be recovered. While it may be easy to identify the values of debt and equity for a licensee as a whole, it is not easy to do so for each of its constituent activities. This is because decisions about debt finance are largely corporate decisions determined by a number of factors, such as historical borrowing facilities and tax planning considerations. Hence, the debt position of the corporate organization may not relate specifically to the funding requirements of individual activities.

An alternative approach to determining the capital value for regulated activities (such as interconnection) is therefore required. One approach is provided by the following balance sheet identity:

Shareholders' funds (i.e. equity) + Debt = Net Assets excluding debt

It follows that the capital values of regulated activities can be determined by apportioning net assets or capital employed. This apportionment should be carried out on a causal basis and under current valuation methodologies.

Allocation of Capital employed

The table below provides a summary of possible allocation methods for different items of capital employed. The application of these and, as appropriate, other methods will determine the capital values of different regulated activities, including interconnection.

The table is not intended to be an exhaustive list of items that might be classified as capital employed nor of the methods for allocating them to different activities.

Account Heads	**Allocation method**
Fixed assets	Fixed assets are to be allocated/ apportioned to three broad categories: • Network elements • Network Services • Other Functions As far as possible, assets would have to be reported against the category that they represent or support. The assets, which cannot be directly and uniquely associated with a cost centre or profit centre are to be allocated

Account heads	Allocation method
	to cost centres according to appropriate cost drivers. **Land and building, which can be directly attributed to a cost centre,** shall be allocated to that cost centre. For example a building in which an exchange is situated or a building in which customer service is located can be allocated directly and fully to the local exchange cost centre (under Network cost centre) or customer service as the case may be. In instances where the land and building are shared or commonly used, the capital cost can be identified to various cost centres / profit centres based on cost driver such as floor space occupied etc. **Plant and machinery** cost which can be directly attributed shall be allocated to that cost centre. For example the cost of switch can be directly identified to a local exchange or a trunk exchange based on the function it performs. Similarly a PLMN operator can identify the SMS server to that network element. In case of shared machinery / network elements the capital cost shall be allocated based on appropriate cost driver such as usage, in terms of length/ minutes/ band width etc.
Current assets and liabilities	Current assets and liabilities are to be allocated to 'Net work elements and 'Others' (i.e. relating to Products/Network Services, other functions etc.).

	Current assets and liabilities would be directly attributed to ‘network elements ’ or ‘others’ wherever possible. For example, specific debtors, creditors, stocks and provisions would be directly allocated to the network segment to the extent identifiable.
Stocks	• The bulk of stocks relates to network (subscribers equipment, modem, store and spares, etc.) and can be directly allocated to network. • All other stocks / store and spares pertaining to other functions shall be allocated to others. For example motor transport spares, computer spares, etc.
Debtors	• Debtors are analyzed by type –Trade debtors can be broadly classified under two main categories i.e. ‘network’ and ‘others’. Generally the debtors would relate to ‘Others’ • The debtors can be directly identified to different services/licences to which they pertain and in case there is no direct identification, they can be allocated to various services/licences on the basis of the relevant turnover. • Accrued income shall be allocated on the basis of relevant turnover by billing system.

Cash at Bank and in hand	• Cash and bank balances can be apportioned on the basis of total operating cost of 'network' and 'others'.

Account Head	Allocation method
Loans and advances	• Loans and advances can be allocated to network based on direct identification wherever possible otherwise it can be allocated based on the total operating cost of 'network' and 'others'.
Current liabilities	Creditors would be analysed by creditors type from the general ledger codes and appropriate apportionment bases to be then applied. For example, • Trade creditors can be apportioned to 'network' and 'others' on the basis of total costs excluding salary and depreciation. • Capital creditors can be allocated to 'network' and 'other' on the basis of the fixed assets additions during the year. • Payroll creditors can be allocated to 'network' and 'others' on the basis of total pay of the relevant units. • Other creditors can be allocated to network and other using bases appropriate to the particular creditor type.

The need for consistency in the treatment of working capital

There can be many approaches to the treatment of working capital in the calculation of capital employed that may be equally valid. In practice, there are two principles that ought to be applied when considering the treatment of individual items of working capital for the purposes of separate accounting. They are as follows:

- There should be consistency between the treatment of assets and their associated costs and revenues; and

- Inclusion or exclusion of individual items ought, in principle, to have a corresponding impact on the WACC.

These two effects (i.e. the decision to include or exclude items and the corresponding adjustment to the WACC) offset each other in terms of their overall effect on the absolute return required by operators.

Annexure B

Proforma Reporting Formats

LIST OF PROFORMAE		
Sl No.	**Proforma**	**Description of the Proforma**
1	Proforma I	Profit and Loss Statement – Licence
2	Proforma II	Profit and Loss Statement – Service
3	Proforma III	Cost Sheet – Network Elements
4	Proforma IV	Cost Sheet – Other Functions/Departments
5	Proforma V	Statement of Gross Block, Depreciation and Net Block – Licence
6	Proforma VI	Capital Employed Statement- Licence
7	Proforma VII	Capital Employed Statement: Allocation to Services
8	Proforma VIII	Statement of Related Party Transactions (Transfer Charging)
9	Proforma IX	Reconciliation Statement (covering all licences and area of operations) with Audited Financial Statements.

Note: The classification and sub- classification of Operating and Capital Costs is tentative presently. It shall be refined further after discussions with the stakeholders, in line with the extant regulatory provisions applicable in the Republic of Mauritius.

Proforma I

PROFIT & LOSS STATEMENT – LICENCE

Name of The Company:
Name of Licence:

Period:

(` in Thousands)

S No.	Particulars	Current Year	Previous Year
1	**REVENUE**		
1.1	REVENUES (NET OF VAT):		
2	**COSTS:**		
2.1	**Employees cost:**		
2.1.1	Salaries and wages		
2.1.2	Contribution to provident fund and other funds		
2.1.3	Staff welfare		
2.1.4	Training and recruitment		
2.1.5	Others (please specify)		
	Sub total		
2.2	**Administration cost:**		
2.2.1	Rent (Other than Network Element Equipment and Cell sites)		
2.2.2	Rates and taxes		
2.2.3	Insurance charges (Other than Network Element Equipment)		
2.2.4	Communication costs		
2.2.5	Electricity		
2.2.6	Travel and conveyance expenses		
2.2.7	Legal and professional charges		
2.2.8	Printing and stationery		
2.2.9	Audit fees		
2.2.10	Outsourcing Charges		
2.2.11	Others (please specify)		
	Sub total		
2.3	**Sales and Marketing cost:**		
2.3.1	Advertisement and business promotion expenses		
2.3.2	Sales commission		
2.3.3	Provision for bad and doubtful debts		
2.3.4	Bad debts write off		

2.3.5	Outsourcing (Billing Services and Customer Care Services)		
2.3.6	Others (please specify)		
	Sub total		
2.4	**Maintenance cost:**		
2.4.1	Annual maintenance charges		
2.4.2	Network Consumables		
2.4.3	Repairs and maintenance:		
2.4.3.1	Buildings		
2.4.3.2	Plant and machinery		
2.4.3.3	Others		
2.4.4	Outsourcing Charges for Maintenance activities		
2.4.5	Others (please specify)		
	Sub total		
2.5	**Regulatory Fees:**		
2.5.1	Licence fee		
2.5.2	USF contribution		
2.5.3	Others (please specify)		
	Sub total		
2.6	**Network operating Cost:**		
2.6.1	Leased Circuits and Gateway Charges		
2.6.2	Royalty for technical knowhow fees		
2.6.3	Rent (Network Element Equipment and Cell sites)		
2.6.4	Power and fuel		
2.6.5	Interconnection:		
2.6.5.1	Port charges		
2.6.5.2	Others (please specify)		
2.6.6	Passive Infrastructure Charges:		
2.6.7	Insurance Charges (Network Element Equipment)		
2.6.8	Outsourcing Charges for Network Element Equipment		
2.6.9	Others (please specify)		
	Sub-total		
2.7	**Depreciation and Amortisation:**		
2.7.1	Depreciation on Network Elements		
2.7.2	Depreciation/amortisation on Others (please specify)		
	Sub-total		
2.8	**Other cost:**		
2.8.1	Loss on sale of fixed assets(net)		
2.8.2	Corporate office expenses		
2.8.3	Others (please specify)		
	Sub-total		

2.9	**Finance charges** *(refer note 1)*		
2.9.1	Bank charges		
2.9.2	Others (please specify)		
	Sub-total		
2.10	**Interconnection Charges**		
2.11	**TOTAL COST**		
3	**Profit & Loss Before Interest and Tax**		
4	**Total Capital Employed**		
5	**Return on Capital Employed (%)**		

Notes:

1. Excluding the interest on loans/borrowed funds

Proforma II
PROFIT & LOSS STATEMENT - SERVICE

Name of The Company:
Name of Licence:

Period:

(in Thousands)

S No.	Particulars	Service Type				
		Service A	**Service B**	**Service C**	**Service ……..**	**Total**
1	**REVENUE**					
1.1	REVENUES (NET OF VAT)					
	COSTS:					
2	**PRODUCT DIRECT COST**					
2.1	**Employee cost**					
2.1.1	Salaries and wages					
2.1.2	Contribution to provident fund and other funds					
2.1.3	Staff welfare					
2.1.4	Training and recruitment					
2.1.5	Others (please specify)					
	Sub total					
2.2	**Administration cost**					
2.2.1	Rent (Other than Network Element Equipment and Cell sites)					
2.2.2	Rates and taxes					
2.2.3	Insurance charges (Other than Network Element Equipment)					
2.2.4	Communication costs					
2.2.5	Electricity					
2.2.6	Travel and conveyance expenses					
2.2.7	Legal and professional charges					
2.2.8	Printing and stationery					
2.2.9	Audit fees					
2.2.10	Outsourcing Charges					
2.2.11	Others (please specify)					
	Sub total					
2.3	**Sales and Marketing cost**					
2.3.1	Advertisement and business promotion expenses					
2.3.2	Sales commission					

2.3.3	Provision for bad and doubtful debts					
2.3.4	Bad debts write off					
2.3.5	Outsourcing (Billing Services and Customer Care Services)					
2.3.6	Others (please specify)					
	Sub total					
2.4	**Maintenance cost**					
2.4.1	Annual maintenance charges					
2.4.2	Network Consumables					
2.4.3	Repairs and maintenance:					
2.4.3.1	Buildings					
2.4.3.2	Plant and machinery					
2.4.3.3	Others					
2.4.4	Outsourcing Charges for Maintenance activities					
2.4.5	Others (please specify)					
	Sub total					
2.5	**Regulatory Fees**					
2.5.1	Licence fee					
2.5.2	USF contribution					
2.5.3	Others (please specify)					
	Sub total					
2.6	**Network operating Cost:**					
2.6.1	Leased Circuits and Gateway Charges					
2.6.2	Royalty for technical knowhow fees					
2.6.3	Rent (Network Element Equipment and Cell sites)					
2.6.4	Power and fuel					
2.6.5	Interconnection:					
2.6.5.1	Port charges					
2.6.5.2	Others (please specify)					
2.6.6	Passive Infrastructure Charges:					
2.6.7	Insurance Charges (Network Element Equipment)					
2.6.8	Outsourcing Charges for Network Element Equipment					
2.6.9	Others (please specify)					
	Sub-total					
2.7	**Depreciation and Amortisation:**					
2.7.1	Depreciation on Network Elements					
2.7.2	Depreciation/amortisation on Others (please specify)					

	Sub-total					
2.8	**Other cost**					
2.8.1	Loss on sale of fixed assets(net)					
2.8.2	Corporate office expenses					
2.8.3	Others (please specify)					
	Sub-total					
2.9	**Finance charges** *(refer note 1)*					
2.9.1	Bank charges					
2.9.2	Others (please specify)					
	Sub-total					
2.10	**Interconnection Charges**					
	TOTAL DIRECT COST (I)					
3	**NETWORK ELEMENT COST** *(refer note 2)*:					
3.1	Network element 1					
3.2	Network element 2					
3.3	Network element 3					
3.4	Network element 4					
3.5	Network Element………					
	Total NETWORK ELEMENT COST (II)					
4	**OTHER FUNCTIONS / DEPARTMENT COST** *(refer note 3):*					
	TOTAL OTHER FUNCTIONS/DEPARTMENT COST (III)					
5	**TOTAL COST (I+II+III)**					

6	**Profit & Loss Before Interest and Tax**					
7	**Total Capital Employed**					
8	**Return on Capital Employed (%)**					

Notes:

1. Excluding the interest on loans/borrowed funds
2. As transferred from Proforma III
3. As transferred/apportioned from Proforma IV

Proforma III
COST SHEET: NETWORK ELEMENTS

Name of The Company:
Name of Licence:

Period:

(` in Thousands)

S No.	Particulars	Network Element 1	Network Element 2	Network Element….	Total
	COSTS:				
1	**NETWORK DIRECT COST**				
1.1	**Employee cost**				
1.1.1	Salaries and wages				
1.1.2	Contribution to provident fund and other funds				
1.1.3	Staff welfare				
1.1.4	Training and recruitment				
1.1.5	Others (please specify)				
	Sub total				
1.2	**Administration cost**				
1.2.1	Rent (Other than Network Element Equipment and Cell sites)				
1.2.2	Rates and taxes				
1.2.3	Insurance charges (Other than Network Element Equipment)				
1.2.4	Communication costs				
1.2.5	Electricity				
1.2.6	Travel and conveyance expenses				
1.2.7	Legal and professional charges				
1.2.8	Printing and stationery				
1.2.9	Audit fees				
1.2.10	Outsourcing Charges				
	Sub total				
1.3	**Sales and Marketing cost**				
1.3.1	Advertisement and business promotion expenses				
1.3.2	Sales commission				

1.3.3	Provision for bad and doubtful debts				
1.3.4	Bad debts write off				
1.3.5	Outsourcing (Billing Services and Customer Care Services)				
1.3.6	Others (please specify)				
	Sub total				
1.4	**Maintenance cost**				
1.4.1	Annual maintenance charges				
1.4.2	Network Consumables				
1.4.3	Repairs and maintenance				
1.4.3.1	Buildings				
1.4.3.2	Plant and machinery				
1.4.3.3	Others				
1.4.4	Outsourcing Charges for Maintenance activities				
1.4.5	Others (please specify)				
	Sub total				
1.5	**Regulatory Fees**				
1.5.1	Licence fee				
1.5.2	USF contribution				
1.5.3	Others (please specify)				
	Sub total				
1.6	**Network operating Cost**				
1.6.1	Leased Circuits and Gateway Charges				
1.6.2	Royalty for technical knowhow fees				
1.6.3	Rent (Network Element Equipment and Cell sites)				
1.6.4	Power and fuel				
1.6.5	Interconnection:				
1.6.5.1	Port charges				
1.6.5.2	Others (please specify)				
1.6.6	Passive Infrastructure Charges:				
1.6.7	Insurance Charges (Network Element Equipment)				
1.6.8	Outsourcing Charges for Network Element Equipment				
1.6.9	Others (please specify)				
	Sub-total				
1.7	**Depreciation and Amortisation:**				

1.7.1	Depreciation on Network Elements				
1.7.2	Depreciation/amortisation on Others (please specify)				
	Sub-total				
1.8	**Other cost**				
1.8.1	Loss on sale of fixed assets(net)				
1.8.2	Corporate office expenses				
1.8.3	Others (please specify)				
	Sub-total				
1.9	**Finance charges** (refer note 1)				
1.9.1	Bank charges				
1.9.2	Others (please specify)				
	Sub-total				
1.10	**Interconnection Charges**				
	TOTAL COST				
	TOTAL NETWORK DIRECT COST (I)				
2	**COST TRANSFERRED FROM OTHER FUNCTIONS / DEPARTMENT**				
2.1	**Dept 1**				
2.2	**Dept 2**				
2.3	**Dept 3**				
2.4	**Dept……..**				
	TOTAL OTHER FUNCTIONS/DEPARTMENT COST (II)				
3	**TOTAL NETWORK COST (I+II)**				

ALLOCATION OF NETWORK ELEMENTS COST TO SERVICES

(` in Thousands)

Particulars	SERVICE A	SERVICE B	SERVICE C	SERVICE ….	Total
Network Element 1					
Network Element 2					
Network Element…….					
Total					

Notes:

1. Excluding the interest on loans/borrowed funds

Proforma IV

COST SHEET: OTHER FUNCTIONS/DEPARTMENTS

Name of The Company:
Name of Licence:

Period:

(in Thousands)

S No.	Particulars	Dept 1	Dept 2	Dept 3	Dept 4	Dept 5	Others	Total
	COSTS							
1.1	**Employee cost**							
1.1.1	Salaries and wages							
1.1.2	Contribution to provident fund and other funds							
1.1.3	Staff welfare							
1.1.4	Training and recruitment							
1.1.5	Others (please specify)							
	Sub total							
1.2	**Administration cost**							
1.2.1	Rent (Other than Network Element Equipment and Cell sites)							
1.2.2	Rates and taxes							
1.2.3	Insurance charges (Other than Network Element Equipment)							
1.2.4	Communication costs							
1.2.5	Electricity							
1.2.6	Travel and conveyance expenses							
1.2.7	Legal and professional charges							
1.2.8	Printing and stationery							
1.2.9	Audit fees							
1.2.10	Outsourcing Charges							
1.2.11	Others (please specify)							
	Sub total							
1.3	**Sales and marketing cost**							
1.3.1	Advertisement and business promotion expenses							
1.3.2	Sales commission							

1.3.3	Provision for bad and doubtful debts							
1.3.4	Bad debts write off							
1.3.5	Outsourcing (Billing Services and Customer Care Services)							
1.3.6	Others (please specify)							
	Sub total							
1.4	**Maintenance cost**							
1.4.1	Annual maintenance charges							
1.4.2	Network Consumables							
1.4.3	Repairs and maintenance:							
1.4.3.1	Buildings							
1.4.3.2	Plant and machinery							
1.4.3.3	Others							
1.4.4	Outsourcing Charges for Maintenance activities							
1.4.5	Others (please specify)							
	Sub total							
1.5	**Regulatory Fees**							
1.5.1	Licence fee							
1.5.2	USF contribution							
1.5.3	Others (please specify)							
	Sub total							
1.6	**Network operating Cost**							
1.6.1	Leased Circuits and Gateway Charges							
1.6.2	Royalty for technical knowhow fees							
1.6.3	Rent (Network Element Equipment and Cell sites)							
1.6.4	Power and fuel							
1.6.5	Interconnection:							
1.6.5.1	Port charges							
1.6.5.2	Others (please specify)							
1.6.6	Passive Infrastructure Charges:							
1.6.7	Insurance Charges (Network Element Equipment)							
1.6.8	Outsourcing Charges for Network Element Equipment							
1.6.9	Others (please specify)							
	Sub-total							

1.7	**Depreciation and Amortisation:**							
1.7.1	Depreciation on Network Elements							
1.7.2	Depreciation/amortisation on Others (please specify)							
	Sub-total							
1.8	**Other cost**							
1.8.1	Loss on sale of fixed assets(net)							
1.8.2	Corporate office							
1.8.3	Others (please specify)							
	Sub-total							
1.9	**Finance charges** *(refer note 1)*							
1.9.1	Bank charges							
1.9.2	Others (please specify)							
	Sub-total							
1.10	**Interconnection Charges**							
	TOTAL COST							
	TOTAL COST – OTHER FUNCTIONS/DEPARTMENTS							

Notes:

1. Excluding the interest on loans/borrowed funds
2.The indicative List of departments is provided below:

SL No.	**List of Departments**
1.	Human Resource/Personnel
2.	Administration
3.	Repairs and Maintenance
4.	Information Technology/EDP
5.	Legal and Regulatory
6.	Finance & Accounts
7.	Corporate Office
8.	Any other Departments

ALLOCATION OF COST OF OTHER FUNCTIONS/DEPARTMENTS TO SERVICE / NETWORK ELEMENTS

(` in Thousands)

Departments	**Dept 1**	**Dept 2**	**Dept 3**	**Dept 4**	**Dept 5**	**Any Others**	**Total**
Allocation to Services							
Service A							
Service B							
Service C							
Service D							
Service E							
Service …………							
Allocation to Network Elements							
Network Element 1							
Network Element 2							
Network Element 3							
Network Element 4							
Network Element 5							
Network Element……							
Total							

Proforma V

STATEMENT OF GROSS BLOCK, DEPRECIATION AND NET BLOCK - LICENCE

Name of The Company:
Name of Licence:

Period:

Gross Block/Depreciation/Net Block **(in Thousands)**

Particulars	Tangible Assets								Intangible Assets					Total
	Land	Building	Plant & machinery	Computers	Office equipment	Furniture & fixtures	Vehicles	Others	Right to use spectrum/ Initial Fee	Licence Fee	Band width	Patents / Technical know how	Others	
NETWORK ELEMENTS														

Sub Total (A)														
OTHER FUNCTIONS/ DEPARTMENTS/ OTHERS														

Sub Total (B)														
TOTAL (A+B)														

Proforma VI
CAPITAL EMPLOYED STATEMENT- Licence

Name of The Company:
Name of Licence:

Period:

(in Thousands)

Particulars	Current Year			Previous Year	
	Components of Capital Employed	Adjustment for replacement cost of Assets (refer note 2)	Total	Components of Capital Employed	Total
Fixed Assets (Gross Book Value)					
Less: Accumulated Depreciation					
NET BOOK VALUE OF FIXED ASSETS (I)					
CAPITAL WORK IN PROGRESS:					
Right to use spectrum/ Initial Fee					
Licence Fee					
Others					
Total CAPITAL WORK IN PROGRESS (II)					
CURRENT ASSETS:					
Current investments					
Trade Receivables					
Inventories					
Cash and cash equivalents					
Short Term Loans and advances					
Others (please specify)					
Sub total					
CURRENT LIABILITIES:					
Short term borrowings					
Trade Payables					
Short term provisions					
Other (please specify)					

Sub total					
NET WORKING CAPITAL *i.e. Current Assets Less Current Liabilities* **(III)**					
TOTAL CAPITAL EMPLOYED (I + II+ III)					
Weighted Average Cost of Capital i.e. WACC (in %) (refer note 2)					

Notes:

1. Capital Employed is the closing capital employed at the end of the Accounting period.
2. WACC is pre-tax Weighted Average Cost of Capital.

Proforma VII
CAPITAL EMPLOYED STATEMENT: ALLOCATION TO SERVICES

Name of The Company:

Name of Licence:

Period:

(in Thousands)

Products	Current Year	Previous Year
	Allocation of Capital Employed to different services	Allocation of Capital Employed to different services
Service A		
Service B		
Service C		
Service D		
Service E		
Service F		
Products…..		
TOTAL		

Proforma VIII
STATEMENT OF RELATED PARTY TRANSACTIONS

Name of The Company:
Name of Service:
Period:

REVENUE

Particulars	Unit of Measurement *(refer note 1)*	Sale - Outside Group *(refer note 2)*			Sale - Within Group/ Company		
		Volume	Revenue (Rs Thousand)	Per Unit (Rs)	Volume	Revenue (Rs Thousand)	Per Unit (Rs)
Product A							
Product B							
Product C							
Product D							
Product E							
Product F							
Products…..							
TOTAL							

Notes:

1. Number of Calls, Minutes of Usage, number of messages etc.
2. Group means the parties as may be defined as "Related Party" in the framework for Accounting Separation.

Proforma IX

RECONCILIATION STATEMENT WITH AUDITED FINANCIAL STATEMENTS

Name of The Company:

Name of Licence: Consolidated for all telecom licences

Period:

(in Thousands)

Sl No.	**Particulars**	**Telecom Licences**											**Inter Licence Adjustment (if any)**	**Total of Licences (net of inter licence adjustment)**	**Other than telecom licences /services as prescribed in the framework of Accounting Separation**	**Total as per Audited Annual Financial Statements**
		PLMN	**NSP (National)**	**PSTN**	**ISP**	**PMRTS**	**ILD**	**NIP**	**Payphone Service**	**NSP (International)**	**Alarm monitoring Service**	**Value added Service**				
1	**Revenue:**															
1.1	Revenue (net of VAT)															
2	**Costs:**															
2.1	Employees Cost															

2.2	Administration Cost															
2.3	Sales and marketing Cost															
2.4	Maintenance Cost															
2.5	Regulatory Fees															
2.6	Network operating Cost															
2.7	Depreciation and Amortisation															
2.8	Others Cost (please specify)															
2.9	Finance Charges (*refer note 1)*															
2.10	Interconnection charges															
	TOTAL COST															
3	**Profit before Interest and Tax (PBIT)**															

4	**Capital Employed**															

Notes:

1. Excluding the interest on loans/borrowed funds