



# **M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON REVIEW OF ACCOUNTING SEPARATION FOR THE TELECOMMUNICATION SECTOR IN SINGAPORE**

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### **1. Introduction**

- 1.1 The aim of this paper is to provide M1's response to IDA's consultation document dated 23 May 2001 on Review of Accounting Separation for Telecommunication Sector in Singapore.
- 1.2 M1 welcomes IDA's consultation and supports the review of the Accounting Separation Guidelines (ASG), for it is evident that considerable efforts had been taken to create a fair and transparent system that provides the appropriate level of regulatory supervision in an increasingly competitive telecommunication market.
- 1.3 M1 also agrees with IDA's view that accounting separation serves as a complementary tool rather than a substitute for the various competitive safeguards in place under the current framework.

### **2. The Scope of Accounting Separation Obligations**

*Comment is invited on the proposed two-level approach to accounting separation*

- 2.1 The two-level approach to accounting separation as proposed in the consultation document is in line with the various objectives set by IDA which aim to monitor issues, such as cross subsidisation, transfer pricing and anti-competitive pricing behaviour.
- 2.2 M1 supports the two-level approach, as it is consistent with the regulatory framework set by the Code of Practice for Competition in the Provision of Telecommunication Services and provides the necessary additional safeguard to ensure that Dominant Licensees do not take advantage of their position in the liberalised regime and leverage market power from one sector to another.

### **3. The Cost Basis**

*Comment is invited on:*

*Should accounting separation be based on "pure" Historical Cost Accounting (HCA), a modified form of HCA, or Current Cost Accounting (CCA)?*

*Should CCA be implemented now or later? If later, what would be an appropriate time of implementation?*

- 3.1 For IDA's purposes of evaluating market pricing, trends and monitoring of efficient asset costs and interconnect charges, the CCA would provide more useful information than HCA.

- 3.2 However, CCA is not an accounting standard adopted in Singapore. In addition, there is no indication that CCA would be adopted by the accounting profession in Singapore in the near future. Therefore, the administration cost of such method would be high.
- 3.3 M1 proposes that the implementation of CCA should be considered in conjunction with development of accounting practice in Singapore.

#### **4. Reporting Architecture and Cost Allocation Principles**

*Comment is invited on:*

*The degree of disaggregation and the segment definitions proposed for Detailed Segment Reporting (DSR) and Simplified Segment Reporting (SSR);  
The preferred method of cost allocation for DSR and SSR; and  
The degree of prescription in the ASG that should be specified for cost allocation methodologies for DSR and SSR*

- 4.1 M1 agrees with the degree of disaggregation and the segment definition proposed for DSR and SSR. During the briefing to the industry held on 25 May 2001, IDA also presented the specific objectives of DSR and SSR.

*Objectives of DSR:*

- *To enable IDA to monitor pricing, potential anti-competitive conduct and IRS (O/T/T) charges*
- *Separate reporting of major service segments, including wholesale/retail separation*

*Objectives of SSR:*

- *Main purpose is to enable IDA to monitor market trends*
- *Higher level of aggregation to minimise regulatory burden*

M1 supports this approach to regulatory supervision in the market and agrees that the proposed reporting format adequately takes into account the market structure and meets the objectives listed above.

- 4.2 However M1 seeks clarification from IDA on the definition of “Mobile” services. We note that in the Executive Summary of the consultation paper, a footnote made specific reference to “mobile” services as follows;

*“For the purposes of this consultative document, “mobile” services includes voice and data services provided over 2G cellular mobile, personal communication services and trunk radio networks.”*

In the context of accounting separation, M1 does not see the need for a distinction based on type of technology. Rather, M1 supports the approach in the ASG whereby the definition of mobile services under Sections 6.2.5(viii) and 7.2.4 would encompass both 2G and 3G.

- 4.3 In terms of cost allocation, M1’s view is that the allocation of unattributable cost based on contribution margin may give rise to cross subsidy, since a negative margin would mean that no cost would be allocated. The preferred allocation basis is to allocate such cost based on revenue.

- 4.4 More generally, M1 supports IDA's approach whereby the cost allocation methodologies under the SSR are determined by Licensees, subject to IDA's approval. M1 concurs with IDA's proposed approach that attributable costs and revenues should be allocated based on cost driver relationships and would work with IDA accordingly on these during the submission of PCAM.
- 4.5 M1 agrees with the degree of prescription in the ASG for cost allocation methodologies for SSR, as it allows a fair balance between flexibility for Licensees (allocation rules may be determined by Licensees) and accountability to the authorities (detailed allocation rules will be documented in PCAM and will be subject to IDA's approval).

## 5. Requirements for Non-financial Information Reporting

*Comment is invited on:*

*Should non-financial information be required as part of the standard reporting requirements?*

*Should the same level of non-financial reporting be required under both Simplified Segment Reporting and Detailed Segment Reporting?*

- 5.1 Although M1 understands IDA's purpose for requiring non-financial information as part of the standard reporting requirements, M1 would like to highlight to IDA that currently various reports are already submitted to IDA for analysis and monitoring purposes. The information M1 submits include:
- Monthly Subscriber Base for Post-paid/Pre-paid mobile services
  - Monthly Subscriber Base for Paging services
  - Monthly Total Number of International Calls via Accounting Rates and via Alternative Delivery Platforms
  - Monthly Total Number of International Call Minutes via Accounting Rates and via Alternate Delivery Platforms  
(note: Information on International Calls have to be further broken down to indicate outgoing traffic to Malaysia)
  - Monthly Total Leased Circuits (Total Domestic Transmission Capacity)
  - Monthly Total Leased Circuits (Total International Transmission Capacity)
  - Quarterly submission of Outgoing and Incoming International Call Minutes for Top 25 Destinations.
  - Bi-annual submission of Monthly Average Call Minutes per Customer per Month for the 6 months' period

M1's view is that the reporting on non-financial information should be separate from the exercise of filing statements under ASG. For the general purpose of on-going monitoring and analytical usage, the information currently being submitted to IDA should suffice. Furthermore, in the event of an investigation, IDA could exercise its powers to obtain the necessary non-financial information. To include such non-financial information as a separate reporting requirement of the ASG amounts to an additional administrative imposition without any evident added value in terms of the usefulness of information provided. It would in fact benefit all

parties if IDA streamlines the reporting requirements rather than request for duplicate information.

- 5.2 As for additional requests of non-financial information, over and above what is currently provided, if IDA determines that these are necessary it would need to give clearer definitions of what is required, otherwise a meaningful comparative analysis would not be possible. For example, under *Total Installed International Call Minutes*, should reference be made to the capacity during peak hours or the theoretical maximum capacity that can be installed? Under *Number of Unsuccessful Call Attempts* would a call be considered as 'unsuccessful' if the call gets through to the called party but the called party is busy or does not answer?
- 5.3 M1 would like to propose that the audit of non-financial information be conducted by an independent agency appointed by IDA, not unlike the Audit Bureau of Circulation for the print media. Till such an arrangement is in place, M1 has no objection to the proposed requirement that non-financial information be subject to audit by the Licensee's external auditor and the auditor has to express an opinion on the non-financial information reports. Such audit should be conducted annually.

## **6. Reporting Requirements**

*Comment is invited on:*

*The proposed frequency and timing of the reporting;*

*The format and content of proposed accounting separation statements for each type of reporting;*

*The level of detail that should be required in the Income Statements for each type of reporting; and*

*The level of detail that should be required in the Statement of Mean Capital Employed for Detailed Segment Reporting*

- 6.1 M1 is agreeable with the proposed frequency and timing of the reporting
- 6.2 For the required financial statements, M1's view is that the proposed content and the level of detail required is sufficient to enable IDA to fulfil the objectives as set out in the draft ASG. However, M1 would like to reiterate that non-financial information should not come under the framework of ASG.

## **7. Administrative Requirements**

*Comment is invited on:*

*The required content of Licensees' PCAMs;*

*The PCAM approval process*

*The proposed audit approach*

- 7.1 The required content of the PCAMs is in line with the best practice. However, our view is that the GL mapping to Income Statement is adequate for SSR reporting. The GL mapping to Balance Sheet is not necessary.

- 7.2 The period given for the submission of the PCAM to IDA is reasonable. In addition, M1 is also agreeable to the proposed audit approach.
- 7.3 With regards to the issue of confidentiality, M1 supports the general approach that the information would be treated as confidential. However, under 8.3(iii) of the Draft ASG, it is stated:

*“(IDA will) disclose the information to others only if IDA considers such as disclosure necessary to carry out its functions under the Telecommunications Act”*

M1 would like to propose that IDA inform the concerned Licensee in advance of any such disclosure and allow the Licensee to make representation to IDA if the Licensee disagrees with the disclosure. IDA may then determine based on the merits of the case put forward as to whether to proceed.

## **8. Implementation**

*Comment is invited on:*

*Implementation issues; and*

*The proposed timeframe for implementation*

- 8.1 M1 seeks clarification on the proposed timeframe for implementation of the revised accounting separation arrangements. Based on the timeframe given for the approval of the PCAM, it is likely that the approved PCAM would be in place only in the 1<sup>st</sup> half of 2002. As such, it appears that for Licensees such as M1, which starts its financial year from 1<sup>st</sup> Jan, IDA is expecting that the first submission under the revised ASG be done only for the 2<sup>nd</sup> half of 2002. In the case that only the 2<sup>nd</sup> half of 2002 is reported under the revised ASG, could IDA confirm that the annual submission under the ASG would not be required?

## **9. Conclusion**

- 9.1 In general, M1 welcomes the approach the IDA has taken with regards to the usage of accounting separation as a complementary tool to the other competitive safeguards placed in the current framework. M1 supports the revised ASG but also requests that IDA clarify some of the queries raised and reconsider the need for non-financial information in the ASG and to streamline all reporting requests, taking into account the existing reporting requirements.