



**RESPONSE TO THE INFOCOMM DEVELOPMENT AUTHORITY OF
SINGAPORE'S CONSULATION PAPER:**

**REVIEW OF ACCOUNTING SEPARATION FOR
THE TELECOMMUNICATION SECTOR IN SINGAPORE**

**BY
QALA SINGAPORE PTE LTD**

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1. Introduction

QALA Singapore Pte Ltd (“QALA”) is pleased to comment on the consultative document entitled “Review of Accounting Separation for the Telecommunication Sector in Singapore” and the “Draft Accounting Separation Guidelines (“ASGs”)” posted on the website on 23 May 2001. Our comments to iDA’s questions are set out below.

2. Proposed Two-Level Approach to Accounting Separation

iDA proposes that accounting separation be applied at two-levels:

- Detailed segment reporting (“DSR”) will apply to Dominant Facilities-based Operators (“FBOs”) and their controlled entities; and
- Simplified segment reporting (“SSR”) will apply to Non-Dominant FBOs.

Application of DSR to Dominant FBOs

To ensure a level-playing field in Singapore’s Information, Communications and Technology (“ICT”) markets, we agree that the following primary objectives of accounting separation will assist iDA in ensuring that prices are cost-based, transparent and non-discriminatory:

- Monitoring cross-subsidisation between competitive markets and non-competitive markets, or between regulated and non-regulated markets;
- Comparison between internal transfer prices and external wholesale service charges for vertically integrated operators;
- Analysing potential anti-competitive pricing behaviour, such as predatory pricing; and
- Determination and monitoring of cost-based interconnect charges

We also agree with iDA’s view that ASGs provide a complementary tool for the various competitive safeguards that are currently in place to ensure transparency and fair competition in Singapore’s telecommunications industry. The imposition of DSR requirements to the Dominant FBOs and their controlled entities will provide a greater level of transparency and assurance of fair play as these dominant players hold significant market power today and hence able to engage in anti-competitive practices. In a newly competitive market such as Singapore, it is valuable for competing operators, especially new entrants in the ICT markets, to have confidence that the dominant operator is not unduly discriminating between itself and competing operators or between one competitor and another. This is especially so for the broadband market where true competition has not been fully established and the dominant operators control the facilities that provide direct connection to the end users in Singapore.

Drawing experience from other jurisdictions, OFTA in Hong Kong and OFTEL in the United Kingdom have imposed more stringent accounting separation requirements on operators with significant market power or holding dominant position in any particular telecommunications business to achieve the objectives outlined above.

Application of SSR to Non-Dominant FBOs

Whilst we do not wish to diminish the importance of the proposed enhancements to the existing ASGs, we question the necessity to impose SSR requirements on non-dominant FBOs (except controlled and related entities of Dominant FBOs that are required to report on DSR basis) given that iDA's only justification for proposing SSR is to gain sufficient information to monitor market performance and trends. We believe that the costs of imposing such requirements on non-dominant players outweigh the benefits.

(a) Accounting separation is not the only tool to monitor general market performance and trends

As identified by the iDA, the main purpose of SSR is to enable iDA to monitor market trends. There are less burdensome and cost effective methods which can be tailored specifically to meet this objective. Currently, FBO and SBO licensees are required to submit data on their individual market performance on a monthly basis. One of the main objectives of the Provision of Information ("POI") requirements is to enable iDA to track, study and analyse overall market trends and the performance of major sectors of Singapore's telecom market.

Other reporting requirements such as the Quality of Standards ("QoS") reports also fulfill the objective of monitoring market trends to a large extent. Though these reports comprise predominantly non-financial information, these information should suffice in assisting iDA to monitor overall market trends. Moreover, with iDA's information gathering powers, iDA could request and obtain additional information such as management reports from non-dominant players as and when it is necessary and required to examine and compare its performance with other market players. This approach could be more effective and pose less compliance and administrative costs for both iDA and the operator as these information may be readily available in the operator's accounting systems.

The costs in implementing new accounting systems or modifying existing accounting systems, significant expenses incurred on the preparation and audit of income statements and segment reports and the considerable time and effort spent to prepare the Procedure and Cost Allocation Manual

(“PCAM”) do not justify the benefit in implementing SSR on non-dominant players.

(b) Main purpose of accounting separation is to ensure that Dominant players do not have an unfair competitive advantage over the smaller operators

Under the Competition Code, iDA recognises that non-dominant operators are already subject to effective market-based competition. These operators, except affiliates of dominant carriers, are incapable of engaging in anti-competitive conduct especially those with minimal diversification and/or vertical integration of business operations. Accounting separation measures directed at such parties would be unnecessary and irrelevant.

(c) SSR discourages new entrants into the market and stifles competition

Any regulatory measure should take into consideration the allocation of resources in an efficient and effective manner. The high regulatory costs in imposing SSR requirements on non-dominant FBOs is likely to cause a diversion of funds and human resources from their core businesses which in turn result in an inefficient allocation of resources. SSR also serves as a barrier to new entrants entering into the telecom market. Overall, it discourages effective competition against the dominant players.

Based on the above views, we are of the opinion that accounting separation should only be applied to the Dominant FBOs and their controlled entities who are able, by the virtue of their market power, to engage in unfair and anti-competitive practices.

3. The Cost Basis

iDA proposes that accounting separation should initially be based on historical cost accounting, but should move to current cost accounting over a 2-3 year time frame.

CCA is regarded as a more appropriate methodology for setting prices as it closely reflects the true economic value of the assets being employed to provide a particular service and would meet the objectives of accounting separation more adequately. However, weighing the amount of time and effort spent on gathering relevant data and the costs involved in building the system and collecting data override the benefits of implementing such methodology. Moreover, major accounting bodies have not endorsed the CCA as accounting standard as they have regarded this concept as being inappropriate to the interpretation of financial statements. As such, we suggest that CCA be implemented only after major accounting bodies (e.g. International Accounting Standards or Singapore Accounting Standards) have implemented CCA as the standard.

4. Segment Reporting Architecture and Cost Allocation Principles

We agree with the degree of disaggregation and the segment definition proposed for DSR and support iDA's selection of the Simplified Cost Driver Allocation Methodology as the preferred method of cost allocation. However, we reiterate the point that SSR requirements serve minimal benefit in fulfilling the objectives of accounting separation, hence the segment reporting architecture and cost allocation methodologies for SSR are irrelevant.

5. Non-financial Information Reporting

iDA proposes that all reporting Licensees should provide information on key operational and service usage parameters as part of the standard reporting requirements of accounting separation.

We agree that non-financial information is beneficial for the analysis of market trends and calculation of average unit costs for the purposes of analysing particular pricing behaviour and should form part of the separated accounts. However, we note that some of the non-financial information (e.g. subscriber base) listed in Schedules 2 and 3 of the Draft ASGs is already submitted to iDA under the existing reporting requirements i.e. the POI and QoS reports. We suggest that iDA review the existing reports required for submission and eliminate repetitive information requested to prevent duplication of work.

6. Conclusion

With regard to the reporting requirements, administrative requirements and implementation of the ASGs under the consultative document, we have no major disagreement to the propositions raised therein. We support iDA's imposition of DSR obligations on dominant FBOs as it prevents cross-subsidisation and anti-competitive practices. However, we contend that SSR obligations on non-dominant FBOs should be discarded as the information will be of minimal value to iDA in achieving accounting separation objectives.