



## **COMMENTS ON REVIEW OF ACCOUNTING SEPARATION AND DRAFT ACCOUNTING SEPARATION GUIDELINES**

StarHub welcomes the opportunity to comment on the consultative document entitled *Review of Accounting Separation for the Telecommunication Sector in Singapore* and the *Draft Accounting Separation Guidelines (ASG)* posted by IDA in its Internet web site on 23 May 2001.

At a broad brush, we find that the draft ASG is an improved and timely updated version of the existing ASG. In particular, the schedules attached to the draft ASG detailing the allocation methods for Detailed Segment Reporting and the reporting formats of financial statements for both Detailed and Simplified Segment Reportings are useful in streamlining the reporting requirements of Licensees.

We now set out our comment in response to the specific queries raised by IDA in the consultative document on:

*1. the proposed two-level approach to accounting separation.*

We are in general supportive of the proposed two-level approach adopted by IDA to the accounting separation for telecom operators.

In short, the two-level approach requires Dominant Facilities-Based Operators (FBOs) and their controlled entities to prepare and submit Detailed Segment Reporting, and Simplified Segment Reporting will be applicable to all FBOs except for Dominant FBOs and their controlled entities and those directed by IDA.

Licensees could apply to IDA for exemption from the above reporting requirement under section 2.4 of the draft ASG.

*2. a) should accounting separation be based on "pure" HCA, a modified form of HCA, or CCA?*

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

CCA is a more appropriate form of accounting method in times of hyperinflation with rapidly changing prices and in highly unstable economic and political situations.

We recognise the advantages of CCA in providing real-time prices for assets currently in use that form the basis for market evaluation such as pricing, trends and the efficiency of asset costs and interconnect charges. However, the benefits of CCA is far outweighed by the burden imposed on reporting Licensees in terms of the cost of implementing the appropriate system and the collecting of data, and the time and effort taken to gather the required information.

CCA has, to-date, not been formally legislated as the format for statutory reporting. The prevalent reporting format in use is HCA. The preparation and submission of financial statements using the HCA format for statutory compliance on the one hand; and the CCA reporting format to comply with the draft ASG on the other will impose unreasonable and difficult compliance reporting standards on Licensees.

Also, the stable polity and the sound financial and economic infrastructure which the Licensees are operating in do not quite warrant the use of the costly and time-consuming CCA reporting format. We contend that HCA would be adequate to reflect relatively accurate financial position of reporting Licensees.

3. a) *the degree of disaggregation and the segment definitions proposed for Detailed/Simplified Segment Reporting;*
- b) *the preferred method of cost allocation for Detailed/Simplified Segment Reporting; and*
- c) *the degree of prescription in the ASG that should be specified for cost allocation methodologies for Detailed/Simplified Segment Reporting.*

As regards Detailed Segment Reporting, we are inclined to support IDA's selection of Option 2 – *Simplified Cost Driver Attribution Methodology* as the preferred cost allocation option.

This method allows for good approximation of support function cost to the respective segments without over-burdening the operator in identifying specific cost drivers for allocation purposes. This, however, does not alleviate the additional operating effort required in identifying the cost drivers for allocation of support plant groups and primary plant groups.

Our concern is that for new entrants, at least a period of 2 to 3 years is required to adequately identify the various cost drivers for network assets. During the period, new entrants will typically focus on service levels, systems and processes to support their core activities that call for a longer preparatory timeframe.

Next, we find that the information contained for each of the service segments under section 7.2 of the draft ASG requires further clarification. For instance, it is not clear if certain mobile data related services were categorised as internet broadband, narrowband or mobile services. Ambiguity in the classification of certain services to closely fit into the definition of service segments provided in the draft ASG may impact the cost allocation model for certain plant related assets, for example mobile network assets.

4. a) *should non-financial information be required as part of the standard reporting requirements?*
  - b) *should the level of non-financial reporting be required under both Simplified Segment Reporting and Detailed Segment Reporting?*

Most of the non-financial information reporting detailed in Schedule 2 – S2.5 for Detailed Segment Reporting and Schedule 3 – S3.3 for Simplified Segment Reporting of the draft ASG could be found in the *Statistics for Telecom Services* published in IDA's Internet web site.

Users of such information to analyse market trends or for other purposes could refer to the above web site, the information of which is regularly updated by the provision of such timely information by telecom operators.

Thus, StarHub is of the opinion that the non-financial information should not be included as part of the standard reporting requirements under both Simplified and Detailed Segment Reporting.

5. *the proposed frequency and timing of the reporting.*

We are generally agreeable to the reporting cycle, i.e. a half-yearly report be submitted within 4 months after the end of the relevant reporting period. Audit should preferably be tied in with the Licensee's annual statutory audit in order to minimise additional cost and disruption in operation.

6. a) *the format and content of proposed accounting separation statements for each type of reporting;*
  - b) *the level of detail that should be required in the Income Statement for each type of reporting; and*
  - c) *the level of detail that should be required in the Statement of Mean Capital Employed for Detailed Segment Reporting?*

StarHub finds that the format, content and the level of detail required in the Income Statements for both Detailed and Simplified Segment Reporting to be complete and functional for users in general.

On the Statement of Mean Capital Employed for Detailed Segment Reporting, we hold the view that the required level of detail reporting to be burdensome as most accounting systems to-date do not support segregation of accounts receivables and payables to a range of products and services. To meet this requirement, reporting Licensees will have to put in additional resources and effort to allocate and to map the figures of accounts

receivables and payables to the relevant products and/or services. The method of allocation will have to be arbitrarily determined which begs the question on the usefulness and the comparability of such information.

7. a) *the required content of Licensees' PCAMs;*
- b) *the PCAM approval process.*

We tend to agree with IDA on the required content of Licensees' PCAMs and appreciate a much structured approach to defining its requirement. However, we have reservations, set out below, to the implementation and approval process and schedule proposed.

8. a) *implementation issues; and*
- b) *the proposed timeframe for implementation.*

New telecom entrants require at least 2 to 3 years in order to identify the various cost drivers for network assets and any other operating cost associated with primary and support plant groups. As such, more time is needed for new entrants to consolidate their positions, and to carry out detailed studies and analysis to fine-tune their charging and allocation models. Further, more time has to be factored in to collect data in order to implement and to verify their charging and allocation models. Thus, we urge IDA to consider a longer timeframe for new entrants to work out their PCAM and the flexibility of compliance with the procedure set out in the PCAM.

In conclusion, we suggest IDA to call for a subsequent round of consultation on the revision of the draft ASG, if any, in the consideration of after having received comments and their incorporation in the draft ASG.