

**REVIEW OF INTERNATIONAL SETTLEMENT ARRANGEMENTS
RELATING TO THE PROVISION OF INTERNATIONAL
TELECOMMUNICATION SERVICES**

A Consultation Document

7 January 2002

INTRODUCTION

1. With the liberalisation of Singapore's telecommunication market from 1 April 2000, persons wishing to establish their own international telecommunication facilities and/or provide international telecommunication services including International Simple Resale (ISR) are permitted to do so, subject to the relevant regulatory and licensing requirements and the provisions of the Telecom Competition Code.
2. To ensure fair and effective competition in the provision of international telecommunication services, IDA formulated a set of guidelines to govern international settlement arrangements between our licensees offering international telephone/fax calls and their counterparts in the overseas destinations. The existing guidelines groups routes to overseas destinations into two: Category I (Cat I) routes (where countries are deemed to be fully liberalized in the provision of international facilities and services); and Category II (Cat II) routes (where there exists a monopoly carrier at the overseas destination end, or where there is limited deregulation and liberalisation in the international services market). To deter potential anti-competitive abuses, in particular whipsawing and one-way bypass, by overseas operators in Cat II countries, licensees are required to have parallel accounting and proportionate return arrangements for Cat II destinations only (**Annex 1** sets out the existing guidelines).
3. Technology advancements and market developments have resulted in the availability of alternative technology platforms such as Internet Protocol (IP) and alternative least cost routing arrangements for the carriage of international telecommunication traffic. These developments are likely to render the current accounting rate regime less effective going forward. These developments warrant a review of our current approach and regulatory framework to ensure their continued relevance and effectiveness.

4. IDA's policy objectives¹ in this review will be to: (a) ensure fair and effective competition in the international telecommunication service market so as to enhance our position as a telecoms hub; and (b) ensure Singapore's market is not distorted through anti-competitive practices by carriers.

ISSUES & CONSIDERATIONS ARISING

Technology and Market Developments

5. Technology and market developments have enabled operators to consider, and leverage alternatives for the delivery of international telecommunication traffic besides the traditional bilateral accounting settlement regime. Notwithstanding that Singapore has fully liberalised its telecommunication market and put in place measures such as parallel accounting rate and proportionate return requirements, these measures could quite easily be circumvented.
 - Are these market and technology developments and concerns real? If so, do they render the current international settlement regime of parallel accounting rate and proportionate return less effective? Why and how?
 - Are there areas of improvement that IDA could consider to address these concerns? What would be the key implementation issues?

Classification of Cat I and Cat II Countries

6. Should the existing international settlement regime be revised, IDA would like feedback on whether the current classification for Cat I and Cat II routes should continue, or if it should be refined or revised. If so, what would be the appropriate classifications? How would such a change meet IDA's policy goals?

Parallel Accounting and Proportionate Return

7. IDA is aware of the possibility that imposing parallel accounting and proportionate return requirements and the publication of accounting rates

¹ IDA's overall policy objectives are to promote the development of the info-communications industry in Singapore, to protect the interest of consumers and to maximise benefits to the economy as a whole. IDA's regulatory approach is to create a competitive telecommunication market environment and to rely on market forces where appropriate to achieve its policy objectives, as these are generally more effective in fostering competition and safeguarding consumer welfare.

could affect our licensees' negotiations with overseas carriers in Cat II countries. As such, IDA would like to seek comments on whether the requirement of parallel accounting and proportionate return for Cat II routes should continue or if it should be lifted. How should IDA then take the appropriate action to safeguard fair competition? For example, if a licensee faces unduly discriminatory negotiations and there is the potential threat of whipsaw or one-way bypass, should IDA impose parallel accounting requirements and/or take any other appropriate competition safeguards or enforcement actions? Would *ex-post* action by IDA sufficiently meet the needs of industry and achieve IDA's policy goals?

INVITATION TO COMMENTS

8. IDA seeks views and comments on the following matters:
- (a) Are one-way bypass and whipsawing still serious concerns at this point of time? Are there other anti-competitive practices that should be considered? At which point of time would these cease to be of concern? What would be the appropriate signals or indicators to ascertain that there is sufficient competition in the market?
 - (b) Should the regulator continue to take an *ex ante* approach or to take an *ex post* approach instead? What would be circumstances under which *ex ante* approach would remain relevant or to consider an *ex post* approach?
 - (c) How effective, or ineffective, are the parallel accounting and proportionate return measures in addressing the problems of one-way bypass and whipsawing? Would there be other more appropriate or effective measures that may be considered to achieve the policy goals? Or should there be other complementary measures? Do these measures pose operational constraints on operators? How can these measures be refined to alleviate the regulatory burden on operators?
 - (d) Would it be useful to continue to require operators to file: (i) their accounting rates and accounting agreements within one week of the conclusion of the agreement; and (ii) the volume of incoming and

outgoing traffic on a route-by-route basis for the top 25 destinations on a quarterly basis? Should this requirement be levied on only certain operators to maximise the effectiveness of the measures in place? What would be the appropriate criteria to determine such a group of operators?

- (e) Would the publishing of the accounting rates and the aggregate figures of all inbound and outbound international traffic volume for Cat II routes be useful to: (i) minimise the potential for anti-competitive arrangements; and (ii) facilitate negotiations between carriers? How would the publication of such rates help to achieve these goals?
 - (f) Are there any advantages, or drawbacks, from continuing to impose, or to lift, the parallel accounting and proportionate return for Cat II countries? How would these arise?
 - (g) What would be the impact of technology developments (e.g. Internet telephony) or indirect access methods and least cost routing (e.g. re-file or transit) on the effectiveness of the current measures?
9. In summary, IDA would like to seek the views and comments on the most appropriate and effective international settlement framework to be put in place. IDA notes the need to strike a balance between relying on market forces, and ensuring that we have the effective means to address anti-competition activities while not unduly burdening our operators with regulatory requirements that would restrain their operations and flexibility to respond to market developments.
10. Respondents are also invited to comment on any other issues not covered herein that they consider of relevance in this review.
11. IDA will consider inputs submitted and revise our policy framework accordingly. IDA will target to announce its revised policy framework by the second quarter of 2002.

- 12 All views and comments should be submitted in writing and in both hard and soft copy (Microsoft Word 97 format), and should reach the IDA on or before 12.00 noon, 28 February 2002. Respondents are required to include their personal/company particulars as well as the correspondence address in their submissions to the International Settlement Regime Consultation Paper. Comments and views should be addressed to:

Ng Cher Keng (Ms)
Director (Policy)
Info-comm Development Authority of Singapore
8 Temasek Boulevard
#14-00 Suntec Tower Three
Singapore 038988
Fax: (65) 211-2238
E-mail: ng_cher_keng@ida.gov.sg

- 13 IDA reserves the right to make public all or parts of any written submissions made in response to the International Settlement Regime Consultation Paper and to disclose the identity of the source. Any part of the submission, which is considered commercially confidential, should be clearly marked and placed as an annex to the comments and views raised. IDA will take this into account when disclosing the information submitted.

Annex 1

**GUIDELINES ON INTERNATIONAL SETTLEMENT ARRANGEMENTS
RELATING TO PROVISION OF INTERNATIONAL
TELECOMMUNICATION SERVICES**

1 INTRODUCTION

- 1.1 With the liberalisation of Singapore's telecommunication market from 1 April 2000, parties wishing to establish their own international telecommunication facilities and/or provide international telecommunication services including International Simple Resale (ISR) may be permitted to do so, subject to the relevant licensing requirements.
- 1.2 To ensure fair and effective competition in the provision of international telecommunication services, IDA has formulated a set of guidelines to govern international settlement arrangements between our licensees offering international telephone/fax calls and their counterparts in the overseas destinations, in particular arrangements for parallel accounting rates and proportionate return. Licensees who establish their own international telecommunication facilities and/or provide such services are required to comply with the guidelines prescribed below in accordance with their licence conditions.

2 INTERNATIONAL SETTLEMENT ARRANGEMENTS

- 2.1.1 For the purposes of establishing the requirements for international settlement arrangements for the settlement of international telephone/fax calls², overseas destinations will be categorised either as **Category I** or **Category II**. The distinction between the countries in each category would be based on the extent of liberalisation and competition in the country for such services. Category I destinations are deemed to be fully liberalised with respect to the provision of international facilities and services. Category II

² Very simplistically, the IDD operator in country A and the operator in country B will agree on an accounting rate to account for international telephone/fax call minutes exchanged between them. The actual settlement rate paid is half the accounting rate and the settlement is usually made on a nett basis i.e. where there is nett imbalance of traffic exchanged with the operator with the nett outgoing calls compared to incoming calls making payment for the nett imbalance.

destinations are cases where there exist a monopoly carrier at the overseas destination end, or where there is limited deregulation in such services. Destinations classified as Category I would be subject to lighter regulatory controls while destinations classified as Category II would be subject to additional safeguards to minimise the potential of anti-competitive abuses from Category II's monopolistic telecommunication operators who leverage on the asymmetry market conditions between the open Singapore market and their own restricted markets.

2.1.2 The criteria used for the classification of destinations are outlined in the table below:

<u>Category</u>	<i>Criteria</i>
<u>Category I</u>	<p>Destinations classified under Category I are considered to be fully liberalised with respect to the provision of international telecommunication facilities and services. The criteria used for determining whether or not a particular destination falls under Category I is as follows:</p> <ul style="list-style-type: none"> • There is free market entry and exit for the provision of international telecommunication facilities and services in the overseas destination; • There are minimal or no restrictions on the level of foreign ownership in operators licensed to provide international telecommunication facilities or services in the overseas destination; • The provision of ISR and other alternative calling substitutes (e.g. callback and Internet-based telephony services) is fully liberalised in the overseas destination; and • There is effective price competition for the provision of international telecommunication facilities and services along the route
<u>Category II</u>	Destinations which do not meet all of the above criteria will be classified under Category II

2.1.3 The current list of Category I and Category II destinations is in Appendix 1.

2.2 **Requirements for Parallel Accounting Rates and Proportionate Returns**

2.2.1 For Category I destinations, IDA will not require our licensees to put in place arrangements for parallel accounting rates and proportionate return. This will provide licensees with greater flexibility in their settlement rate arrangements and negotiations. IDA nonetheless reserves the right to impose competitive safeguards should there be occurrences of anti-competitive abuses.

2.2.2 For Category II destinations, IDA will continue to retain the requirements for parallel accounting rates and proportionate returns. Operators may however apply to IDA to lift the proportionate return requirement for a destination on a case-by-case basis subject to sufficient justification that there would be no adverse impact on competition although IDA will continue to require parallel accounting. IDA may also impose additional safeguards when deemed appropriate and necessary to ensure that effective and sustainable competition develops. IDA also expects the licensees to establish and practise mutually beneficial co-operative arrangements among themselves to safeguard their common interests.

2.3 **Technical Requirements and Safeguards**

2.3.1 Licensees are also required to comply with the following technical requirements and safeguards:

- (a) Licensees shall not manipulate the Calling Line Identity (CLI) of the original calling party and the original calling party CLI shall be passed on in the conveyance of a call accordingly.
- (b) Licensees shall not, in the handling of outgoing traffic, manipulate the access code dialled by the calling party.
- (c) The A-bit of the Forward Call Indicator (FCI) of the Initial Access Message (IAM) on the ITU-T Signalling System Number 7 ISDN User Part (ISUP) signalling should be set to the value “1” to

identifying an international incoming call for systems interworking. Where the Licensee operates a system which does not support ITU-T Signalling System Number 7 signalling, then the Licensee shall route such international incoming calls on specified circuits/trunks.

2.4 **Information to be Submitted by Licensees to IDA**

2.4.1 Licensees will be required to file the following information to IDA for both Category I and Category II destinations:

- (i) All accounting rates and accounting arrangements must be filed with IDA within 1 week of the conclusion of the agreement. Any subsequent changes to the settlement rates or settlement agreement must also be filed with IDA within 1 week of the conclusion of the change. IDA reserves the right to require the licensee to amend the terms of the agreement or the rates if these are deemed to be anti-competitive in nature; and
- (ii) Statistics of the volume of incoming and outgoing traffic handled by the licensee with such breakdown on a destination-by-destination basis or any other classification methods as may be specified by IDA for the top 25 overseas destinations. The traffic volumes are to be filed to the IDA on a quarterly basis.

2.5 **Publication of Information**

2.5.1 For Category I routes, IDA will publish aggregate figures for all operators, for the volume of inbound and outbound international traffic. IDA will not publish statistics of individual operators³. As operators offering services along Category I destinations are not required to impose parallel accounting arrangements, IDA will not publish the accounting rates for these routes.

³ It should be noted that today, we have not published such figures except in aggregate for all traffic.

2.5.2 For Category II routes, IDA will publish aggregate figures of all operators for the volume of inbound and outbound international traffic⁴. The traffic statistics of individual operators will not be published. IDA will also publish the accounting rates for all Category II destinations to minimise the potential for anti-competitive arrangements and to facilitate the negotiations of the licensees⁵.

3 RE-CLASSIFICATION OF ROUTES

3.1 Licensees may apply to IDA for re-classification of destinations from Category II to Category I by providing the necessary justifications on the competitiveness of the relevant destinations.

⁴ See footnote 2.

⁵ It should be noted that today, we have not publicised these accounting rates but have instead notified operators on request so as to not to adversely impact commercial sensitivities.

Appendix 1

Classification of Category I and Category II Routes

<u>Category I</u>	Category II
Australia	Rest of countries
Austria	
Belgium	
Canada	
Denmark	
Finland	
France	
Germany	
Hong Kong	
Iceland	
Ireland	
Israel	
Italy	
Japan	
Luxembourg	
Netherlands	
Netherlands Antilles	
New Zealand	
Norway	
South Korea	
Spain	
Sweden	
Switzerland	
UK	
USA	