TRAI/Aircel/Corr/2015/

22nd April 2015

To
Shri M.P. Tangirala
Advisor (F&EA)
Telecom Regulatory Authority of India,
Mahanagar Doorsanchar Bhawan,
Jawahar Lal Nehru Marg,
(old Minto Road)
New Delhi – 1100002.

Subject: Review of "The Reporting System on Accounting Separation Regulations, 2012(7 of 2012)" dated 10th April 2012(as amended)

Dear Sir,

This has reference to your letter number F. No. 16-2/2015-F&EA dated 1st April 2015 seeing comments/views on any aspect related to accounting separation Regulations, 2012 (as amended).

In view of the above, please find enclosed Aircel comments/views on various aspect of Accounting separation Regulations, 2012 (7 of 2012)

We request the authority to take our views into consideration while coming with amendment on the subject.

Thanking you,

Yours truly,
For Aircel Group
Ramesh K
Senior General Manager - Corporate Regulatory Affairs

Encl: as above

Copy to: Shri Sudhir Gupta, Secretary, TRAI

Aircel Group Inputs for amendment in Accounting Separation Regulations, 2012:

1) **Product Simplification**

- Regulation requires Revenue and attributable costs to be presented for Prepaid and Postpaid separately considering it to be product but Prepaid and Postpaid is the segmentation of customers and not the service which Telecom Service Provider (TSP) provides.
- There are various revenue streams which cannot be segregated into Prepaid and Postpaid like Inroaming, Site Sharing, Leaseline etc.
- Product / Revenue breakup is required for Offnet and Onnet separately for Airtime and Video Calls, Outroaming Revenue into National & International, which are generally not tracked by TSPs separately and has to be derived for the purpose of reporting in ASR which increases efforts in preparation.
- Limited product classification will bring out the effective price offered for each type of service. This will help in avoiding complicated differential allocation followed by different operator and will help in unification of process.
- Hence, it is suggested to done away with requirement of Prepaid and Postpaid segregation and simplification of product definition summarizing into main services like Voice, Data and SMS.

2) **Replacement Cost Accounting**

- Regulation requires ASR Proforma to be prepared on Replacement cost basis every alternate year in addition to Proforma prepared on Historical cost basis.
- In a fast changing telecom technology world, assessing replacement cost of existing asset may not be relevant. The significant portion of capital cost of any operator today would be the spectrum cost which is determined based on auction. In a high competitive telecom market, the pricing is not based on current cost but on a long term cost.
- TSPs face various issues in gathering inputs related to replacement due to change in technology, obsolescence or non-availability of telecom equipment of similar technology and ageing.
- Company law does not require maintenance of books of account on replacement basis hence preparing Proforma on replacement basis requires putting additional efforts and applying assumptions.
- Thus, it is suggested to remove the requirement of Replacement cost

3) **Timeliness and Board Approval**

- Regulation requires ASR Proformas to be adopted by Board of Directors and also to be Audited & certified by Auditors

- ASR is required to be submitted within six months from the end of financial year which coincides with the timeliness of submission of financial statements with Ministry of Corporate Affairs
- Input for the preparation of ASR Proformas is Audited Financial Statement and hence submission timeliness for both cannot be same. It is suggested to extend the timeliness for submission of ASR to nine months from six months.
- Since ASR is prepared and reconciled with Audited financial statements which are already adopted by Board of Directors hence requirement of re-adoption of ASR by Board of Directors should be removed.

4) <u>Related Party</u>

- As per the Regulation, the service providers are required to furnish revenue from related parties as per Proforma – H. This information is required to be provided for each license business area (circle) with each company (related party) separately within a group. The group has been defined as ‘related party’ in the Regulation. The ‘related party’ has the meaning assigned to it in the Accounting Standard on Related Party Disclosures (AS 18) issued by the Institute of Chartered Accountants of India. The transactions with related party are further bifurcated Product-wise (Prepaid, postpaid, etc). Further Proforma H requires reporting of Sale outside group too
- Post introduction of Domestic Transfer Pricing (TP) norms under Income tax act followed up with TP Audit, the pricing of related party ensures pricing at “arm’s length”. Objective of TRAI to investigate predatory pricing or discrimination is well covered under Transfer price audit.
- Transactions with related party are generally wholesale trading in nature (Roaming or Interconnect) and not in the customer segmentation such as Postpaid, Prepaid, etc. Hence, consider revising of product type or classification of related party transactions
- Proforma H requires reporting of Sale outside group whereas all related parties are considered as part of same group. Clarification to be provided on the rationale.
- Accounting Standard of ICAI provides for related party disclosure at entity level. Hence, it is suggested that ASR also can consider revising the format of related party transactions at Entity level rather than at License level.
- It is suggested to simplify the Proforma eliminating all undesired requirements like “Sale outside group” etc.

5) <u>Clarification on Allocation Methodology</u>

- Every year TSPs are required to submit a copy of the relevant portion of their manual containing (i) a description of accounting policies for allocation and apportionment of revenue, cost, assets and liabilities and (ii) the basis of cost allocation and apportionment.
- Each TSP follows different methodology for allocation of common costs or assets.

- Thus, it is suggested to have the guidelines on allocation methodology for uniform reporting across TSPs.

6) **Cost Audit**
   - ASR was introduced when Cost Audit for Telecom Industry was not prescribed.
   - Cost Records maintenance is a statutory requirement and mandatory for Telecom operators with turnover of Rupees 25 crores or more. Cost Records are adopted by Board, audited by Cost Auditor and Cost Audit report is filed with Ministry of Company Affairs.
   - Post introduction of Cost Audit, the ASR regulation can be can be minimized to include only those which are not available in Cost Audit.
   - ASR Proformas in 2012 are re-designed considering cost audit proforma but also included further detailed with more information
   - Preparing both the records and Mandatory audit for both (Cost and ASR) the records increases effort and cost of operators.
   - Alternatively Quarterly reports and Audited AGR submitted to TRAI consists of most of the financial and non-financial information. The same can be strengthened and ASR can be shelved / minimized.
