COAI

RSM/COAI/2015/056

April 22, 2015

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The Telecom Regulatory Authority of India
Mahanagar Door Sanchar Bhawan
Jawahar Lal Nehru Marg (Old Minto Road)
New Delhi-110002

Dear Sir,

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

This is with reference to the notice issued by TRAI on April 1, 2015 regarding the review of the "The Reporting System on Accounting Separation Regulations (ASR) 2012 (7 of 2012)" dated 10th April 2012 (as amended)"

TRAI vide its said notice had sought the comments/views from various stakeholders with regard to the aspect related to Accounting Separation Regulations 2012 which needs review.

In this regard, please find enclosed COAI's submission on the issue as Annexure – 1.

We believe that our submission will merit your kind consideration.

Kind regards,

Sincerely yours,

Rajan S. Mathews

Rajan S. Mathews
Director General

CC : **Dr. Rahul Khullar, Chairman**
: **Dr. Vijayalakshmy K Gupta, Member, TRAI**
: **Shri. Anil Kaushal, Member, TRAI**
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COAI

Annexure 1

We would like to thank the Authority for providing us an opportunity to comment on The Reporting System on Accounting Separation Regulations 2012 dated April 10, 2012

Telecom Regulatory Authority of India (Authority) had issued the "The Reporting System on Accounting Separation Regulation, 2012" on April 10, 2012 mandating the submission of audited accounting Separation reports from service providers having an aggregate turnover of 100 crore or more during preceding financial year. These reports provide useful information on revenues, costs, returns and capital employed in major areas of service provider's business which enables the authority to address anti-competitive behavior, discrimination and predatory pricing concerns and to facilitate fair competition.

1) **Replacement Cost Accounting (RCA)**

   TRAI should discontinue the existing provision of submission of Accounting Separation Reports on Replacement Cost accounting every alternate year as it has lost relevance in today's Telecommunication scenario where the business has shifted from Capex model to Opex model. Further it is not possible to get the exact / identical replacement cost for the existing equipment. Currently, the Accounting Separation Reports based on RCA is required to be submitted every second year in addition to the reports based on historical cost accounts which are to be submitted every year. Since cost of assets does not change frequently, therefore it is suggested that RCA should be required after three accounting year instead of every second accounting year as Technology Changes take at least 3 years to change

2) **Applicability criteria/ limits**

   Presently the reporting system on Accounting Separation Regulation, 2012 issued by authority is applicable to all service providers having aggregate turnover of not less than Rs 100 crore during the financial year.

   We also suggest that ASR should be applicable only to TSPs having license under section 4 of the Indian Telegraph Act 1885, and should not be extended to infrastructure services/segments (IP1s / tower business, dark fiber etc.) since these activities are not covered u/s 4 of the Indian Telegraph Act 1885.

3) **Product categories** :

   There is a need for re-alignment of various products/components based on their current usage and contribution – e.g. if the revenue of product is >10% or Rs 50 crs of total service revenue then it should be deemed a separate product category

4) **Uniform Basis of Allocation and Apportionment**

Under the current regime, there are significant complexities relating to interpretation in absence of uniform basis of distribution of cost in to different elements / products. This is a vital and timely consultation to address the dynamics of telecom environment as any non- operational item in the report will have direct impact on financial analysis in the decision making.

In the absence of uniform basis of allocation and apportionment some complexities are as follows:-

A. Current and Non-Current Assets used by two or more than two services.

B. Currently telecom companies are incurring huge cost on account of common Advertisement / Branding cost, Corporate employee cost and similar common and joint costs, which are not allocated to any specific circle and accounted for in the books of corporate center. There are no specific guidelines for allocation & apportionment of corporate center cost across circles. It is suggested that specified guideline in line with best international practices should be prescribed for allocations.

In order to offset these complexities, TRAI needs to form guidelines for allocation that would be easy to follow and avoid different basis of allocation across the service operators.

This will represent the true and fair comparison cost/ contribution which can be used for any future decision making.

5) **Related Party Transactions**

The Related Party transactions are disclosed in Annual Report of the Company and under Cost Audit compliances also. Disclosure of such transaction in ASR is duplication of work and should be dispensed with.

6) **Periodicity and time period of Submission of Accounting Separation Reports**

ASR reports should be submitted on yearly basis and it should be submitted to TRAI by 31st Oct, which will give adequate time for preparation and analysis of the accounting separation reports.

7) **Periodicity of Submission of Accounting Separation Manual (ASM)**

As per current guidelines every company should submit the revised manual within 30 days from date of any changes. It is suggested that submission of manual should be made annually, if applicable with submission of Accounting Separation Records and this should not be considered for disincentives.

8) **Adoption of ASR Reports**

We would like to submit that the Accounting Separation reports are being prepared based on the audited financial statement adopted by the Board of Directors. Further Accounting Separation report including schedules is duly certified by the authorized signatory appointed by the Board of Directors and thereafter signed by the auditor. Hence there should not be any further requirement for adoption of Accounting Separation Report by the Board of Directors and same should be done away.

9) **Products under various telecom licensed services specified in the Accounting Separation Regulation 2012. Products defined in Schedule-1 of ASR 2012 :** We suggest the following changes to be done in Schedule I list of ASR 2012

In Access Service Products categories, In Proforma B, there is need to change in sub products under the head of Calls as per accounting followed:

As per ASR 2012	Suggestion
(b) Calls :	(b) Calls :
(i)Voice 1. Off Net 2. On Net	(i)Voice
(ii)Video 1. Off Net 2. On Net	(ii)Video

In Access Service Products categories, (h) Wholesale (Interconnect) Product group should not be shown as postpaid and prepaid rather it should be shown in consolidation as Categorization of Wholesale into Prepaid and Postpaid is not feasible

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