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## Review of 'The Reporting system on Accounting Separation Regulations, 2012 (As Amended)'

Sistema Shyam Teleservices Limited welcomes the opportunity extended by TRAI to comment on the review of "The Reporting system on Accounting Separation Regulations, 2012 (As Amended)" vide its letter No. 16-02/2015-F&EA dated on 1<sup>st</sup> April 2015. Please find below our comments on the same:

### A. Replacement Cost Accounting (RCA)

- 1. Periodicity of Submission of ASR on basis of Replacement Cost Accounting (RCA) -** Currently 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. RCA are required only for the purpose of valuation of assets at current cost. Since cost of assets is not frequently change therefore it is suggested that RCA should be required after three accounting year instead of every second accounting year.
- 2. Index for determine current cost Assets -** Currently all telecom companies are using different methodology for determining the current cost of the assets. There are no standard/Specific guidelines issued/recommended by the TRAI to determine current cost. It is suggested there should be standardized guidelines for determining the current cost, so uniformity can be maintained across industry.

### B. Uniform Basis of Allocation and Apportionment

- 1. Basis of Allocation Common Cost to Product -** There is no standard basis's for allocation of Common cost to multiple products. Every company has own view to allocate of common cost. It is suggested making specific guideline for cost allocation between products.
- 2. Basis of Allocation Support Function Cost-** A uniform basis of distribution of Cost of Support function (Proforma D) to Network Elements (Proforma C) and to Products (Proforma B) should be prescribed by TRAI. Likewise a uniform basis of distribution of cost of Network Elements (Proforma C) to Products (Proforma B) should be prescribed by TRAI. This will facilitate TRAI in conducting Analysis and Fixation of Rate of Products (Call rate, data Charges etc.).
- 3. Basis of Allocation Common Cost to Services-** There is no uniform basis for allocation of Common cost to two or more than two services. Every company has own basis to allocate on multiple Services. TRAI should prescribe a uniform basis of allocation to allocate common cost to services.



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4. **Basis of Allocation of Corporate Opex Cost** – Currently telecom companies are incurring huge cost on account of common Advertisement/Branding cost, Common Network cost, Corporate employee cost and likewise any other cost, 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 should be prescribed for allocations.
5. **Basis of Allocation & Apportionment of Common Fixed Assets** –TRAI should prescribe a uniform basis of allocation and apportionment for the following
  - a. Common Network Elements used by two or more than two services.
  - b. Land & Building, Furniture & Fixtures, Office Equipment and other such Common Non Plant & Machinery Assets used by two or more than two services.
  - c. Current and Non-Current Assets used by two or more than two services.

#### C. Accounting Separation Manual (ASM)

1. **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 annually either at the beginning accounting year or along with submission of accounting separation records.

#### D. Submission of Reports

1. Online submission of Reports – ASR reports should be submitted to TRAI in Online mode like XBRL along with linked excel files saved in a CD-ROM. E-submission will be more eco-friendly. Hard copies takes a lots of time as well as wasting resources.
2. Manual Submission of Reports – Currently all the ASR reports are required to submitted at Delhi office of TRAI, It is suggested that multiple locations should be made available to all companies for submission of their ASR Reports.

#### E. Financial and Non-Financial Proforma –

1. **Proposed Changes Need to do in Proforma' s** – We Suggest to TRAI to make Following changes in Schedule I of Proforma.
  - a. **Proforma C & D** – Can Proforma C & D can be merged and single proforma to be used for allocation of Network Cost and Supportive function cost.
  - b. **Proforma H** – Title of proforma H is “Statement of Related Party Transactions”, but the desired information in proforma H is measurement of per unit Revenue of different products. It does not have information of related party. It is suggested either changes in title or suggests that only related party transactions need to be mentioned.



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- c. **Proforma I** – It is suggested please provide guidelines for reconciliation items, that should part of reconciliation items or not.
- d. **Proforma B**, S.No. 2.6 - Network Operating Cost should be omitted as Proforma B relates to product cost and not Network cost.
- e. **Proforma C**, S.No. 1.3 - Sales and Marketing Cost and S.No. 1.5 - Government Charges should be omitted as Proforma C is related to Network cost not Product Cost.
- f. **Proforma D**, S.No. 1.5 - Government Charges and S.No. 1.6 - Network Operating Cost should be omitted as Proforma D is related to Support Department cost and not Product and Network Costs.
- g. **Proforma G**, Uniform basis should be prescribed for allocation of capital employed.
- h. **Proforma-A&B** presently “Sale – Within Group/Company” shown under Whole Revenue only, it should be omitted. To be shown as follow.

1	<b>REVENUES (NET OF SERVICE TAX) :</b>
1.1	<b>Wholesale Revenue</b>
1.2	<b>Retail Revenue</b>

- i. **In proforma B**, presently in “Rental/Activation/One Time Fees/Recharge Fees” , “Pass Through Charges” are not be allocated to the cost of this product. Please advise weather pass through charges should be allocated to this product or not, if “Yes” please specify guideline for allocation.
2. **Non-Financial Information** – We required from TRAI should provide more clarification on the following points.
- a. In working of Leased Transmission Capacity, whether lease line which taken on rent should include in leased transmission capacity.
  - b. In Calculation of Number of tower details, whether Aggregation and repeater sites to be Includes.
  - c. Classification of SMS/MMS counts should provide in national and International rather than On net/ Off Net Terminating / Off Net Originating
  - d. In Wireline - classification of Details of DEL (Direct Exchange Line) should be omitted

**F. Others –**

- 1. **Treatment of license surrender Circles Cost:** There is no prescribed guideline for treating of OPEX, CAPEX expenses, current assets and liabilities of license surrender circles. It is not specified whether the same should be considered as a reconciliation item or any other specific treatment.



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2. **For all services** : We would like to request for minimize the network element which is appearing in Proforma E, because total network cost are allocate on all network element which does not seems correct.
3. **Rate for calculation of Weighted Average Cost of Capital (WACC)** – As per Regulation, the service provider are required to report their WACC in proforma F as per formula as given in regulation. There are no specified guidelines for determining rate of cost of debt and Cost of equity. It is suggested please specify guidelines for same.
4. **Concept of materiality** – As per current regulation companies need to submit ASR for each and every services as specified either the company is having negligible revenue for any services, it is suggested that some concept of materiality should be introduced for providing the ASR .
5. **Cost Audit and ASR Report's** - There should be Sync between ASR guidelines as issued by TRAI and Cost Audit Rules as issued by MCA Department. Data using for preparation of both report in inter changeable. To preparation of both reports is cumbersome & time consuming activity. It is suggested that there should be one guideline for both report.