Accounting Separation Guidelines, 2007

1. Introduction

1) Accounting separation requires enhanced transparency in the accounting arrangements of operators that are determined to have significant market power (SMP) in the relevant markets. This separation of information comes into particular focus in determining the rates that may be fairly charged by the SMP operator to competitors that seek to interconnect with or gain access to its network. To assist in ensuring that interconnection rates fairly reflect the associated costs, the Authority requires operators to have transparent cost accounting systems. This transparency mandate includes accounting separation, which involves the separate identification of all elements of revenue, cost, assets and liabilities related to the various activities of SMP operator, so as to ensure transparency of internal cost transfers and discouraging cross-subsidization between activities.

2) The Pakistan Telecommunication Authority is empowered under section 5(2) (e) and section 25 (1) of the Pakistan Telecommunications (Re-organization) Act, 1996, to require any licensee to establish and maintain specified accounting procedures in order to enable the Authority to obtain all relevant information required for determining the tariff or for exercise of any other power of the Authority. The Authority initially placing the obligation of accounting separation on operators who are determined to have significant market power in the national wholesale market and/or are determined to have significant market power in two or more retail markets. However, the Authority may require any other operator to produce such information, in the prescribed form, as required by the Authority for the performance of its functions.

2. Definitions

The words and expressions used in these Guidelines but not defined shall have the same meaning as are respectively assigned to them in the Act, the Rules, the Regulations and the Guidelines. In these Guidelines, unless there is anything repugnant in the subject or context, the following terms shall have the meanings indicated below:

1) "Act" means the Pakistan Telecommunication (Re-organization) Act 1996;

2) "Authority" means the Pakistan Telecommunication Authority established under section 3 of the Pakistan Telecommunication (Re-organization) Act 1996;

3) "Accounting Separation" means the preparation of Separated Accounts for different Business Units and Disaggregated Activities of the same Licensee, so that their costs and revenues can be separately identified and properly allocated;

4) 'Business Unit' means a sub-division or segment of the Licensee's business for the purpose of these Guidelines;

5) "Disaggregated Activity" means a sub-service within a Business Unit which is treated as separate accounting segment for the purpose of these Guidelines;

6) "Financial Year" means a financial year of the Licensee in respect of which statutory accounts are required to be prepared and audited in accordance with the requirements of the Companies Ordinance 1984;

7) "Guidelines" means the guidelines issued by the Authority on accounting separation from time to time;

8) "Retail market" means a market for services to end-user consumers which are not themselves providers of telecommunications services.

9) "Separated Accounts" means such restatement and disaggregation of a Licensee's accounts as may be required by the Authority for regulatory purposes and as stipulated in these Guidelines;

10) "Transfer charge" means charge or price that is applied, or deemed to be applied by the Licensee to itself for the provision of service(s) by one of its Business Unit or Disaggregated Activity to its another Business Unit or Disaggregated Activity;

11) "Wholesale market" means a market for services to other service providers who then provide service to end-user consumers.

3. Level of Accounting Separation

1) Separate accounts shall be maintained by the operator for the following business units:
   - Network;
   - Retail; and
   - Other Activities.

   If an operator has both fixed and mobile operations, separate accounts shall be maintained for each. In the case of a fixed network operator, the Network accounts shall be further disaggregated into:
   - Access Network
   - Core Network.

2) The definition of each of the above business units is set out in Annex-I to these Guidelines. The Accounts for the disaggregated activities, where applicable, of the above main business units would further increase transparency and assure other operators in the market that there is no discrimination in the provision of services to the SMP operator's own retail business and its other business activities. This is to ensure that there is no element of unfair cross-subsidization between the different services that SMP operators provide (i.e. between their regulated and non-regulated activities). As an example, the main disaggregated activities under the "Retail" business unit are given in Annex II to these Guidelines.

3) Where the operator's Retail activities include both regulated and unregulated activities, separate accounts for the regulated activities should be prepared. However, the operators are not required to reveal detailed financial information about their unregulated activities which they would not be required to disclose for statutory reporting purposes. Information relating to such activities may be shown in aggregate and reported as "Retail – Remaining Activities".

4) For retail products that are also sold to wholesale operators (e.g. MVNO), the operator providing such services should maintain an underlying accounting separation system that is capable of substantiating the levels of retail costs and those which are avoided by wholesale service provision.

5) The SMP operators shall maintain appropriate cost accounting systems to achieve this regulatory obligation in accordance with the Authority's guidelines on 'Cost Accounting Methodologies for Accounting Separation Purposes'.

4. Regulatory Accounting Conventions

1) The following Regulatory Accounting Conventions shall be applied by the operators when preparing accounts for separate individual business activities. Where there is a conflict between the conventions, they shall be applied in the order in which they appear below:

Cost Causality

2) Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services or business units in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

3) Where it is not possible to attribute revenue, cost, assets and liabilities in accordance with the preceding paragraph, the attribution shall be such as to present fairly the revenue, costs, assets and liabilities accounted for in the Separated Accounts for each business or activity. In the absence of any justification to the contrary, the Authority would expect this attribution to be equi-proportionate to those costs which can be attributed on the basis of cost causation.

Objectivity

4) The basis chosen for attribution shall be objective. The attribution shall not intend to benefit the SMP operator or any other operator, product, service, component, business unit or disaggregated activity.

Materiality

5) The use of a specific allocation basis may not be necessary if the effect of allocation is not material to the outcome, either individually or collectively with other cost allocations using the same allocation base. However, it may not be possible to measure the effect without adopting an alternative basis and, in cases of doubt, the most appropriate activity-related cost allocation basis should be used.

Consistency

6) The same basis of allocation and apportionment shall be used from year to year, unless there are necessary changes. Where there are material changes to the Regulatory Accounting Principles, attribution methods or accounting policies, that have a material effect on the information reported in the Separated Accounts of the Businesses, then the previous year's Separated Accounts shall be restated accordingly.

Transparency

7) The methods and basis used for allocation of revenue, cost, assets and liabilities shall be transparent. Cost and revenues which are allocated shall be separately identified from those that are apportioned.

5. Regulatory Accounting Principles

1) The preparation of the regulatory Separated Accounts shall follow the following guiding principles:

(a) The Separated Accounts shall be prepared in accordance with the Regulatory Accounting Conventions (as specified above), which set out the general rules by which the Accounts are to be prepared.

(b) The Separated Accounts shall include transfer charges between the main business units for services the operator provides to itself. They shall also disclose the equivalent transactions with competing operators. All such transfer charges should be disclosed together with the associated service volumes.

(c) The Separated Accounts shall be prepared in accordance with International Accounting Standards, in so far as they are relevant, unless superseded by the regulatory accounting principles.

(d) Details of significant changes that materially affect the Separated Accounts along with prior year restatements shall be given.

(e) Separated Accounts shall be prepared annually and contain comparative information following the initial period.

(f) The Separated Accounts shall disclose any differences between costs allocated to different activities by the operator, and the costs that the Authority allows for the purpose of determining charges.

(g) The Separated Accounts shall be subject to an independent audit.

6. Reporting Requirements

1) As stated above, separate accounts for Access Network, Core Network, Retail Activities and Other Activities shall have to be prepared by the fixed-line SMP operators. The mobile SMP operators shall prepare separate accounts for Network, Retail Activities and Other Activities.

2) The following information shall be prepared for each set of accounts in the prescribed formats given in Annex III:

   (a) Profit and Loss statement;

   (b) Balance Sheet information in a form that is consistent with the measures of capital employed;

   (c) Return on Mean Capital Employed; and

   (d) Supporting Notes.

3) The Profit and Loss statement shall disclose Revenues and Operating Costs from each business activity. The profit under each account shall be before interest and tax. All accounts shall show any transfer charges to or from other business units. For example, charges paid by the operator's own Retail Activities for interconnection services shall be clearly shown as a cost in the Retail Accounts and as revenue in the Core Network Accounts.

4) The Balance Sheet shall provide the breakdown of Fixed Assets, Current Assets and Current Liabilities. The Balance Sheet figures are the average values for the period to which the Balance Sheet relates. For ease of reconciliation with an operator's statutory accounts, the average may be calculated simply from opening and closing balance sheets for the period.

5) The operators shall provide the following additional information along with their Separated Accounts:

   a) A statement of the accounting policies applied, including cost conventions;

   b) Definition of main business units and their disaggregated activities;

   c) A statement of the basis of allocation and apportionment of revenue, operating costs and capital employed;

   d) A summary of transfer charges made amongst the separated business units and disaggregated activities;

   e) A statement of costs disallowed by the Authority, if any, along with reconciliation between results calculated apportioning all costs and those apportioning only relevant costs; [1]

   f) A reconciliation of the Separated Accounts to the audited statutory accounts of the operator. Reconciliation should be made at the aggregated level for both Balance Sheet and Profit and Loss statements with any material reconciling item separately identified.

   g) A statement, in appropriate form, by the auditors that certifies the representation of the Separated Accounts as true and fair.

   h) Detail of significant changes in accounting policies, if any, with the reasons for such changes.

7. Transfer charges

1) The system of transfer charges shall apply to services and products provided from one business unit (for example, Access Network, Core Network and Retail) to another. The transfer charging system shall follow the Regulatory Accounting Conventions and conform to the following principles:

   a) Transfer charges (revenues and costs) shall be attributed to cost components, services and main business units or disaggregated activities, which cause the revenues to be earned, or costs to be incurred;

   b) The attribution shall be objective and not intended to benefit any business or disaggregated activity;

   c) There shall be consistency of treatment of transfer charges from year to year;

   d) The transfer charging methods used shall be transparent. There shall be a clear rationale for the transfer charges used and each charge shall be supportable;

   e) The transfer charges for internal usage shall be determined as the product of usage and prevailing unit charges. The charge for internal usage shall be equivalent to the weighted average charge levied for the equivalent product or service sold externally rather than internally;

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[1] The Authority may determine that certain costs are disallowed particularly in areas where prices are to be fixed or approved by the Authority. If the Authority disallows a cost as part of a regulatory decision, it must also indicate whether and how it may be recovered from other services.

f) The Separated Accounts shall disclose the transfer charges between business units and/or disaggregated activities.

8. Publication of Financial Information

1) The Authority may request detailed financial information at any time from all the operators as may be reasonably required. This information may be published, if the Authority considers it would contribute to an open and competitive market, subject to the consideration of its commercial confidentiality. Issues of commercial confidentiality are especially significant for private limited and unlisted public limited companies, as they have no statutory duty to publish their accounts.

2) The publication of financial information at a sufficiently detailed level would increase the confidence of operators that there is no undue discrimination between the internal and external provision of services by the SMP operator, and would make transparent the relationship between interconnection charges and costs. However, some information is of confidential nature, the publication of which may harm the business viability of the operators. The determination of an appropriate balance between contribution to an open and competitive market, and the commercial confidentiality of the information shall be made by the Authority after consultation from the stakeholders.

3) The Authority shall not require the publication of the first set of Separated Accounts. This position shall be reviewed in consultation with the operators once the first version of the regulatory Separated Accounts is produced by all concerned operators.

9. Appointment of Auditors

1) The operators shall appoint suitably qualified[2] auditors to carry out the audit of the Separated Accounts and notify the Authority of the appointment. The Authority may invite the auditors to discuss procedures to be applied by them in performing the audit or to discuss the auditors' findings following performance of the audit. The Authority may request the operators to instruct their auditors to perform additional or alternative work to substantiate the statements and assertions contained in the Separated Accounts and to further report on this additional work.

2) All audit work carried out on the Separated Accounts, whether by auditors selected and appointed by the operators or by the auditors selected and appointed by the Authority shall be at the expense of the operator.

3) The auditors shall plan and carry out such work as will enable them to report whether or not any matter has come to their attention, from the work carried out by them which causes them to believe that the Accounts do not in all material respects:

   a) Present fairly in accordance with the accounting methodologies that are to be attached to the Accounts, the results, mean capital employed and costs incurred by each of the businesses and activities disclosed in the Accounts;

   b) Comply with any relevant regulation, decision or determination issued by the Authority; or

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[2] 'Suitably qualified' in this context refers to a firm of accountants and auditors which, by virtue of their professional training, qualifications, experience and scale of operations, might also qualify to serve as auditors of the operator's statutory Financial Statements.

c) Contain the information specified by these guidelines, decisions or determinations as required to be published in the Accounts.

4) The auditors shall address their report to the operator's corporate entity and this report will be attached to, but will not form part of, the Separated Accounts submitted to the Authority by the operators from time to time.

5) Where any such matters have come to the auditors' attention, these matters shall be clearly described in their report together with, where reasonably possible, the potential monetary impact on the results, mean capital employed or costs incurred by each of the businesses and activities disclosed in the Accounts, or a statement that the estimation of the potential monetary impact is not reasonably possible to establish.

6) The auditors' report shall clearly set out the respective responsibilities of the auditor and the operator and the basis on which the audit has been carried out and the opinion arrived at.

7) The Authority may also appoint auditors to carry out such further reviews, examinations and audits as it deems necessary should the operator or its auditors fail to provide the information required.

10. Timing of Separated Accounts

1) In order for accounting separation to be effective, the information provided should be timely. Unnecessary delays in the provision of the regulatory accounts would defeat the purpose of producing such accounting information.

2) The audited Separated Accounts shall be submitted to the Authority not later than six (6) months of the close of the operator's financial year.

3) The first set of audited Separated Accounts shall be submitted to the Authority by the licensee not later than twelve (12) months following either the relevant determination of SMP by the Authority or the publication of Accounting Separation Regulations and supporting guidelines, whichever is the later.

Annex I: Main Business Units

1. Network

1) The Network business unit comprises all physical infrastructure used to provide telecommunications services to end users. It comprises transmission, switching and call control functions. In a fixed network, the Network business will be sub-divided into Access and Core Network business units.

2) The accounts for the Network business will include the costs, revenues and capital employed associated with the provision of network services. The revenues of the Network business will derive principally from the sale of interconnection services to the Retail business (via internal transfer charges) and to other operators.

Access Network

3) The Access Network provides connections to the Core Network. For accounting separation, the Access Network business will include all the customer-dedicated components of the network including, for example, the line cards and ports located at concentrators and/or exchanges. The Core Network business will include all other network components.

4) The accounts for the Access Network business will include the costs, revenues and capital employed associated with the provision of access services. Customer line rental will be a service provided by the Retail business. The revenue from line rental provided to end-users will, therefore, be recorded against Retail Activities. However, line rental revenue from unbundled local loops, where these are made available to other market players, will be assigned to Access Network. Thus, the cost of providing customer lines will initially be recorded against the Access Network business and there will need to be a transfer of costs to Retail in order to match revenues with their associated costs. The costs transferred to Retail should be net of any possible local access revenue such as line rental revenue from other market players.

5) In case of fixed-line operators, revenue of the Access Network shall include the transfer charges from the Core Network regarding Access Promotion Contribution (APC) on international incoming calls. The APC shall accordingly be reflected in the operating costs of Core Network as transfer charge to Access Network.

Core network

6) The Core Network business provides a range of interconnection services internally and externally in order to allow the customer of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls.

7) The accounts for the Core Network business will include the costs, revenues and capital employed associated with the provision of these services. The revenues of the Core Network business will derive principally from the sale of interconnection services to the Retail business and to other operators.

2. Retail

1) The Retail business includes all those activities involving the selling of services to end-users. For fixed operators the principal retail services are line rental, calls, payphones, leased lines and data services. For mobile operators the principal retail services are subscriptions, calls, messaging and data services.

2) The accounts for the Retail business will include the costs, revenues and capital employed associated with the provision of these services to end-users.

3) The costs allocated to Retail will include transfer charges related to the use of network resources or services provided by the Network business, and the marketing and billing costs associated with the provision of end user services. Separate accounts should be prepared for each activity within Retail that is subject to regulation.

3. Other Activities

1) This classification captures all other activities that may be carried out by the operators. This may include rental, repair and maintenance of customer equipment. For the purposes of accounting separation, the costs, revenues and capital employed associated with these activities will be separately identified.

Annex II: Example of disaggregated activities under Retail business unit

1. For fixed-line networks

(i) Retail – Access

The business relating to the supply of customer line rental and its associated cost

(ii) Retail - Local Calls

Local dialled calls originating from fixed networks and terminating on fixed networks.

(iii) Retail – NWD Calls

NWD calls originating from fixed networks and terminating on fixed networks in Pakistan.

(iv) Retail - International Calls

International calls originating from fixed networks in Pakistan and terminating on networks outside Pakistan.

(v) Retail - Public Payphones

Local, national and international dialled calls, originating from public payphones.

(vi) Retail - Leased Lines

Rental, maintenance, connection and change of local and international leased lines beyond customers' premises.

(vii) Retail - Calls To Mobile

Dialled calls, including local and national, originating from fixed networks that terminate on a mobile network.

(viii) Retail - Supplemental Services

The Business relating to the supply of certain data and value added services.

(ix) Retail - Remaining Activities

All other telecommunications services that are within the Retail Business.

2. For mobile networks

(i) Retail – Subscriptions

Connection and rental services provided to mobile subscribers.

(ii) Retail – Voice Calls

Local, national and international dialled calls from mobile subscribers connected to the network for the transport of real-time speech.

(iii) Retail – SMS/Data

Transport of SMS and other data signals other than in the form of real-time speech.

(iv) Retail – Roaming

The provision of the capability to subscribe to voice calls and SMS/Data services by virtue of roaming agreements concluded with other mobile network operators.

(v) Retail - Remaining Activities

All other telecommunications services that are within the Retail Business.

Annex III: Formats of separated accounts

1. Accounts of fixed-line network

1.1 Access Network

(a) Profit and Loss Account

	Current Year	**Prior Year**
Revenue:		
Other Operators (including APC)		
Transfer charges from Retail Business		
Transfer charges from Core Network (APC)		
Total Revenue		
Operating costs:		
HCA operating costs		
CCA adjustments*		
Total Operating costs		
Profit/(Loss)		

(b) Balance Sheet Information

	Current Year	**Prior Year**
Fixed assets:		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		

* Applicable for FAC CCA and LRIC CCA accounts.

Current assets:		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities:		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Year**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

1.2. Core Network

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue:		
Other Operators		
Transfer charges from Retail Business		
Total Revenue		
Operating costs:		
Operating costs specific to Core Network		
Transfer charges to Access Network (APC)		
Total HCA operating costs		
CCA adjustments*		
Total Operating costs		
Profit/(Loss)		

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets:		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets:		
Stocks		
Debtors		

* Applicable for FAC CCA and LRIC CCA accounts.

Investments		
Cash and bank		
Total current assets		
Current liabilities:		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Year**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

1.3. Retail

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue:		
Connection charges		
Line Rental		
Call charges		
Others		
Total Revenue		
Operating costs:		
Operating costs specific to Retail		
Transfer charges to Access Network		
Transfer charges to Core Network		
Total HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

* Applicable for FAC CCA and LRIC CCA accounts.

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	Prior Year
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

1.4. Other Activities

(a) Profit and Loss Account

	Current Year	**Prior Year**
Revenue		
Operating costs:		
Total HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

(b) Balance Sheet Information

	Current Year	**Prior Year**
Fixed assets		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		

* Applicable for FAC CCA and LRIC CCA accounts.

Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Year**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

2. Accounts of a mobile network

2.1 Network

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue:		
Other Operators		
Transfer charges from Retail Business		
Total Revenue		
Operating costs:		
HCA operating costs		
CCA adjustments*		
Total Operating costs		
Profit/(Loss)		

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets:		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets:		
Stocks		
Debtors		

* Applicable for FAC CCA and LRIC CCA accounts.

Investments		
Cash and bank		
Total current assets		
Current liabilities:		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Year**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

2.2. Retail

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue:		
Subscription charges		
Call charges		
Others		
Total Revenue		
Operating costs:		
Operating costs specific to Retail		
Transfer charges to Network		
Total HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets		
Stocks		

* Applicable for FAC CCA and LRIC CCA accounts.

Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Year**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

2.3 Other Activities

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue		
Operating costs:		
HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		

* Applicable for FAC CCA and LRIC CCA accounts.

Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Year**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		