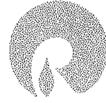


Reliance Jio
Infocomm Limited

RJIL/TRAI/2015-16/48
22nd April 2015

To,
Sh. M. P, Tangirala,
Advisor (F&EA),
Telecom Regulatory Authority of India,
Mahanagar Doorsanchar Bhawan,
Jawaharlal Nehru Marg,
New Delhi - 110002

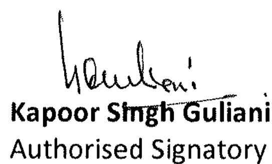
Subject: Comments on TRAI's letter dated 01.04.2015 on "Review of the Reporting System on Accounting Separation Regulations, 2012 (7 of 2012) dated 10th April 2012 (as amended)".

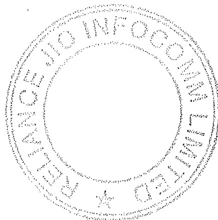
Dear Sir,

Please find attached comments of Reliance Jio Infocomm Limited on the issues raised in TRAI's letter No. 16-02/2015-F&EA dated 01.04.2015 on "Review of the Reporting System on Accounting Separation Regulations, 2012 (7 of 2012) dated 10th April 2012 (as amended)".

Thanking You,

Yours sincerely,
For **Reliance Jio Infocomm Limited,**





Kapoor Singh Guliani
Authorised Signatory

Encl.: As above.

"formerly Infotel Broadband Services Limited" CIN U72900MH2007PLC234712
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RELIANCE JIO INFOCOMM COMMENTS ON REVIEW OF ACCOUNTING SEPARATION REGULATION

1. TRAI vide its letter No. 16-02/2015-F&EA dated 01.04.2015 asked comments of service providers for review of "The Reporting System on Accounting Separation Regulations, 2012 (7 of 2012) dated 10th April 2012 (as amended)". **Reliance Jio Infocomm Ltd welcomes the opportunity to provide the comments on the System on Accounting Separation Regulations.**

2. The System of Accounting Separation was devised in 2004, when licenses were granted service and geographical area wise, spectrum was bundled with the license and Spectrum was allocated for a specific technology. Since the implementation of the Accounting Separation Regulations, many changes and developments have taken place in the telecom sector which have direct bearing on the objectives and requirement of the Accounting Separation. Some of the major policy changes that have taken place and are compelling reason for review of the Accounting Separation Regulation are highlighted below:

   (i) From the regime of service wise and service area wise licenses, the Government has moved to a Unified licensing regime. A single license is required to provide any number of the telecom services in any number of license areas.

   (ii) Earlier the licence fee was different for different services and hence arbitrage opportunities were there, however, now the License fee is uniform across for all services and for all service areas. If given a choice, single window payment of consolidated License Fee for all service areas and all the service is possible even without any license area wise or service wise segregation of accounts.

   (iii) The conventional voice and SMS service would be delivered on CDMA, GSM, UMTS, LTE and Wi-fi platforms. There is emerging trend of convergence of data and voice services networks but there would be wide variation of cost structure on these technology platforms.

   (iv) Further, new revenue streams like OTT, payment banks, M2M services are emerging.

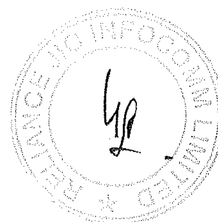
3. On one hand, many new revenue streams are emerging but on the other, technology and licensing is converging. In this scenario cost apportionment to various products and services would be very difficult. The cost allocation on the basis of usage or revenue would bring lot of subjectivity and there would be wide variation in cost presentation of different operators. Thus accounting separation would not provide an objective analysis of performance or costing of various products and services.

4. One of the objective of Accounting Separation is to provide cost records for tariff setting and determination of interconnection usage charges. As far as tariffs are concerned, for most of the services and products the tariffs are under forbearance. Tariff of only few products/services are being regulated but Accounting Separation is detailed requiring cost reporting for all products and services. Regarding Interconnection usage charges, it is submitted that origination charges are already under forbearance, for carriage charges ceiling has been specified and for determination of termination charges TRAI has adopted LRIC+ based costing in the recent amendment therefore there is no need for Accounting Separation, as it provides cost records based on Historical Costs. In view of the above, in the current scenario, the Accounting Separation is exceedingly onerous and may not be relevant.

5. The Accounting Separation is also used to investigate and establish any anti-competitive behaviour like predatory pricing, cross-subsidising etc. With convergence of services, most tariffs under forbearance and market being so competitive, there is less relevance for Accounting Separation to identify and establish anti-competition behaviour.

6. All the TSP's are incorporated under the Companies Act, 2013 and need to follow the various compliance requirements including maintenance of Accounting records and cost record as prescribed under the said Act. As per Companies (Cost Records & Audit), 2014 all companies engaged in providing 'telecommunication services' are required to maintain cost records in their books of accounts and shall get its cost records audited in accordance with the rules specified therein. At the same time TSP's are also required to maintain records under TRAI Accounting Separation Regulation as well. Majority of the details required per ASR, 2012 are based on Cost Accounting Records, Statutory Financials, AGR Reporting which are all either audited / certified by Cost / Statutory Auditor of the TSP. Since ASR reports are not required for payment of any taxes, requirement of getting these reports audited adds to compliance obligations and costs of the TSP.

7. Further, the Cost accounting records forms part of Books of Accounts of the TSP and are adopted by Board in line with the requirements of Companies Act, 2013 and listing agreement of SEBI (in case of listed companies). Schedules & Proforma requirements per ASR, 2012 are an effect of conversion of costing records & statutory financials by using underlying assumptions, estimates and allocation rules prescribed and these reports are required to be reconciled with the audited annual accounts. Since ASR is ultimately based on the audited records, additional responsibility of adopting ASR by Board of Directors will not serve any useful purpose. And if ASR Reporting is aligned



with Companies (Cost Records & Audit), 2014 per which cost accounting records forms part of Books of accounts, which are adopted by the Board of Directors, separate adoption of ASR Reports can be avoided.

8. Apart from the above, there are number of periodical reports relating to revenue, traffic etc. submitted by service providers to different divisions of TRAI and before every exercise TRAI also asks various details, therefore there may not be any need for accounting separation regulations.

9. **In view of the above, <u>RJIL suggests that that ASR Reporting and Audit thereof should be aligned with the requirements of Companies (Cost Records & Audit), 2014.</u>**

10. **In case, TRAI is of the view that Accounting Separation is still required separately then it is suggested that it should be simplified.**

11. Our comments on simplification of various Accounting Separation features are given below:

I. **Withdraw Replacement Cost Accounting**

(i) "Replacement Cost Accounting" defined in the regulations as system of accounting where value of an asset is entered in the financial statement at the price which is required to be paid if same or equivalent asset is purchased. The Accounting Separation Regulation requires that reports should also be prepared on the basis of Replacement Cost Accounts <u>every second year in addition to the reports prepared on the basis of Historical Cost Accounts</u>.

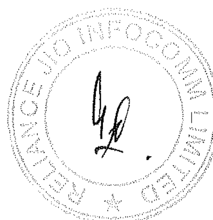
(ii) The Replacement Cost Accounts are required only for the purpose of tariff setting. The tariffs for most products and services are under forbearance, Even wholesale termination charges for call originating and terminating on wire line networks is Zero. Considering the fact that tariffs for very few services are being regulated, the Replacement Cost Accounting may not be relevant.

(iii) Further, the differences between Historical Cost Accounts and Current Cost Accounts is less significant in the case of mobile network as asset base is relatively younger and a greater proportion of assets with very short lives (e.g. software).

(iv) TRAI has recently specified a new IUC mechanism based on LRIC+ which is based on independent cost assessment and therefore a detailed cost accounting records on Historical as well as on current basis is not justified.

(v) **In view of the above, RJIL suggests that the preparation of Accounting Separation Reports on the basis of Replacement Cost Accounting should be withdrawn.**

(vi) In case, TRAI is of the view that Replacement Cost Accounting is still required, then it is suggested that the periodicity should be amended from two years to five years as suggested below.



II. Date of applicability of regulation and periodicity of submission of reports:

(i) Regarding applicability of the Regulations, **regulation 1(3) of the accounting separation regulations provides that these regulations shall apply to all service providers having aggregate turnover of not less than rupees one hundred crore, during the accounting year for which report is required to be submitted under these regulations**, from operations under the licence issued under section 4 of the Indian Telegraph Act, 1885.

(ii) Proviso to Regulation 4(2) stipulate that a service provider is **not required to furnish the financial report based on Replacement Cost Accounting for three years from the date of issue of licence.**

(iii) Further, on periodicity of submission of reports, regulation 5(1) provides that every service provider shall submit to the Authority within six months of the end of the accounting year: -

(a) yearly audited reports based on the Historical Cost Accounting; and

(b) **every second accounting year, audited reports based on Replacement Cost Accounting.**

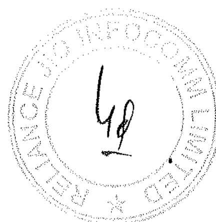
(iv) Linkage of furnishing the report under Accounting Separation Regulation with the date of issue of license may be appropriate when the spectrum was bundled with the license but now it has been delinked and therefore, Accounting Separation reporting should not be linked to the date of issue of license.

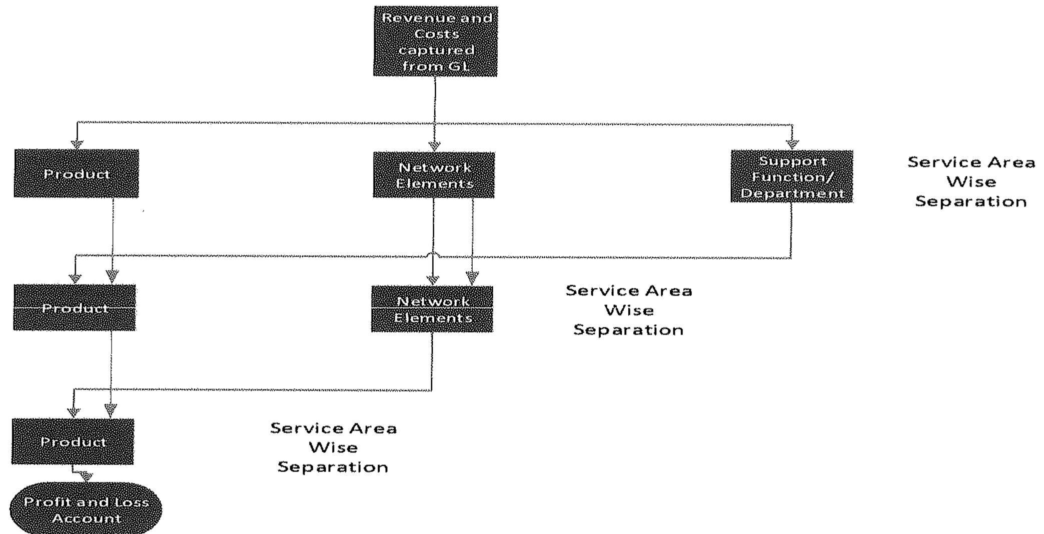
(v) Logically the applicable date for Accounting Separation should be the date of issue of spectrum. However, presently spectrum is auctioned over a period of time and there would be lot of issues concerning the applicability date.

(vi) **Therefore, it is suggested that the Accounting Separation Regulations may be amended so that a service provider is not required to furnish the financial reports for three years from the date of commercial launch of services or having aggregate turnover of not less than rupees one hundred crore, whichever is later. Further, regulation 5(1) may be amended to make periodicity of furnishing the reports based on replacement cost accounting, every fifth year, thereafter.**

III. Levels of Separation of Accounts

(i) The Accounting Separation Framework requires separation of costs and revenue into network elements, support divisions, products, services and licensed service areas. A Pan-India operators has to prepare hundreds of P&L statements and cost sheets to comply with the separation requirements. Innumerable Accounting Separation Reports would also load the Authority. The current level of segregation is explained in the following chart places:





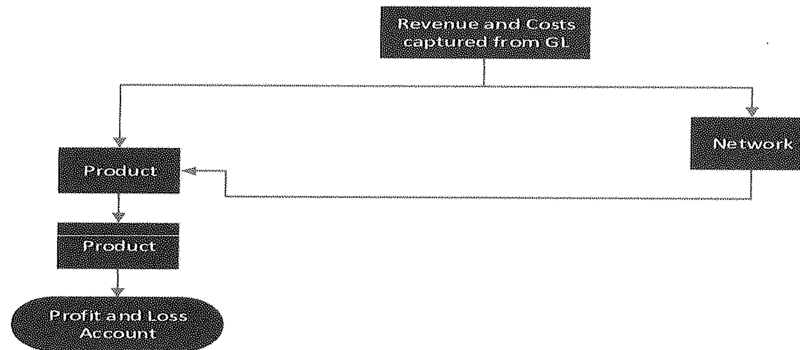
(ii) A high level of segregation was required at one point of time when market was not enough competitive, there were simple with a limited number of basic product, the market technology evolution was relatively static and tariff of most telecom services were being regulated. Now tariffs for most services are under forbearance and there is enough competition in the market. Considering the dynamics of the modern telecommunication markets, there is minimal requirement of cost records for tariff fixation or examination of other issues like cross subsidy or predatory pricing. It is unlikely that a very high level of the Accounting Separation would still be useful and serve the perceived objectives and provide proportionate benefits.

(iii) TRAI sets tariff on all India basis. The regulated charges for termination of calls, roaming is same across all license service areas. Since TRAI policy does not require separate costs details for each geographical areas, **TRAI may consider to withdraw License Area wise Accounting Separation.**

(iv) RJIL believes it is unlikely that the Authority would require segregation of cost at support function level for costing or pricing. The reporting of costs at a support function is complex. The accounting separation at support function level was not required between 2004 and 2012 and it has been mandated only after 2012. It is suggested that support function level segregation should also be withdrawn.

(v) The level of segregation is vast and it is suggested that it should be simplified. A simple Accounting Separation would benefit both the industry as well as the Authority for a more objective analysis of financial performance. It is suggested that segregation of accounts, service area wise and department-wise may be withdrawn.

(vi) The suggested level of Segregation is given below:



IV. Downsize Product Level Segregation

(i) TRAI has mandated separate P&L Account to be prepared for on-net and off-net calls, Pre-paid and post paid segments, WLL and Full Mobility etc. All these products have similar costs and therefore allocation of costs to these products and preparation of separate P&L account would not provide any meaningful analysis.

(ii) The TRAI also require separation of accounts for Rental, activation, one time fee which are only revenue streams and not products. Thus the list of products for which separate accounts are required can be rationalised and downsized. RJIL suggests that the list of products for access services should have only following components:

a. Voice Calls
b. SMS
c. Data Service
d. VAS
e. Others

V. Auditing and Adoption of Accounting Separation Statements by Board of Directors

(i) As per the Accounting Separation Regulation the Accounting Separation Reports are required to be audited and adopted by the Board of Directors.

(ii) The Accounting Separation Reports are based on the annual accounts and reconciled with the same. As Company's annual accounts are audited and adopted by the Board of Director, it is requested that there should be no separate requirement for auditing and adoption of Accounting Separation Reports by the Board of Directors.

12. **Summary of Suggestions:**

(i) In view of the above, RJIL suggests that that ASR Reporting and Audit thereof should be aligned with the requirements of Companies (Cost Records & Audit), 2014. In case, TRAI is of the view that Accounting Separation is still required separately then it is suggested that it should be simplified and it is further suggested that the Accounting Separation Regulations may be amended so that a service provider is not required to furnish the financial reports for three years from the date of commercial launch of services or having aggregate turnover of not less than rupees one hundred crore, whichever is later.

(ii) In view of the above, RJIL suggests that the preparation of Accounting Separation Reports on the basis of Replacement Cost Accounting should be withdrawn. In case, TRAI is of the view that Replacement Cost Accounting is still required, then it is suggested that the requirement of Replacement Cost Accounting reports to be prepared every fifth year effective from first submission of ASR (Historical Basis).

(iii) Following is suggested for simplification of Accounting Separation:
(a) Withdraw the separation of accounts on the basis of license service area and support functions.
(b) Prune the list of products for accounting separation.
(c) Auditing and adoption of Accounting Separation by Board of Directors should not be mandated.