

10th February, 2012

The Pr. Advisor (FA & IFA)

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

Kind Attention: Ms. Anuradh Mitra

Ref No.- 16-07/2010-FA dated 16th January, 2010

Sub:- Draft 'The Reporting System on Accounting Separation Regulation, 2012' - Views/ Suggestions of Sanjay Gupta & Associates, Cost Accountants – regarding.

Dear Madam,

The new proposed "The Reporting System on Accounting Separation Regulation, 2012" in the light of Current Telecom Scenario is in itself splendid.

With reference to the above letter No. On the subject mentioned above; following are our comments/views and suggestions for your consideration-

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
1.	<i>Eligibility Criteria of the Applicability of ASR</i>	Point No. 11.1 of the letter No. 16-07/2010-FA dated 16th January, 2010	Service Providers having an Annual Turnover of Rupees 25crores or more during the preceding Financial Year	Service Providers having an Annual Turnover of Rupees 100 crores or more during the preceding Financial Year	The Turnover Criteria for the various Service Provider Segments should be differentiated like- <ul style="list-style-type: none">• ISP/NLD/ILD/VSAT/Tower Business/Dark

Sanjay Gupta & Associates

Cost Accountants

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
					<p>Fibre Business/Cable Landing Station to be 50 crores or more</p> <ul style="list-style-type: none"> • UASL to be 100 crores or more
2.	Replacement Cost Accounting	Pg 8 of the Draft- "The Reporting System on Accounting Separation Regulation 2012"	Provided that if less than three years have elapsed since issue of the license to provide a particular service, the financial statements based on Replacement Cost Accounting may not be prepared for that service.	Provided that if less than three years have elapsed since issue of the license to service provider for providing a particular service, the financial reports based on replacement cost accounting need not be prepared for that service.	Reporting as per Replacement Cost Accounting should be done 3 years from the date of Commencement of Business or the assets put to use and after that every alternate year For Instance- A company may have acquired the License but wouldn't have commenced their service for next 2 years; Meaningful analysis of replacement of Asset would not come out since the Assets would be just a year old.
3.	Performance Appraisal Analysis	Chapter-II Manual and Reports- 3(2)	No Provisions	No Provisions	<p>Description of following Performance Appraisal Analysis Should be there in the manual prepared by the company:-</p> <ol style="list-style-type: none"> (1) Key Cost and Contribution Analysis (2) Product Wise Profitability Analysis (3) Market/Consumer

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
					Profitability Analysis (4) Application of Management Accounting Tools
4.	Non Financial Statements	NLD & ILD- Proforma J (D & E)	Network Information- Network Overview Chart	No Provision of Network Information	There is no information related to Network in the New Proposed Regulation. In our view Network overview chart consisting of Overall Network Architecture should be added through which information related to Exchanges, Transmission, and Interconnection can be identified and linked with appropriate Network/Cost Elements.
		Wireless Service Proforma J (A & B)	Average retail revenue per subscriber		Information to be asked for average revenue per subscriber.
		Proforma J(a) –II			Subscriber details should be for following category:- (i) Pre-paid (ii) Post-paid (iii) Data Services 2G 3G

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
		Proforma J (a)			Tariff Details of Top 5 existing plan should be capture in non-financial information for prepaid, Post-paid services separately.
5.	Capital Employed Statement	Proforma F of the Draft- "The Reporting System on Accounting Separation Regulation 2012"	Capital Employed was calculated based on Closing Capital Employed at the end of the Accounting Period	Capital Employed is the closing capital employed at the end of the Accounting period.	Capital Employed should be calculated based on Average of Net Fixed Assets (Excluding Intangible Assets effect of Revaluation of Fixed Assets and Capital Work in Progress) plus Net Current Assets existing at the beginning and closing of the Financial Year.
		Proforma F			Return on capital employed charged on network elements based on weighted average cost of capital employed should be calculated and added back in the cost of network element for capturing of accurate cost.
6.	Negative Capital Employed	Proforma F of the Draft	No Provisions	No Provision	There should be a provision as footnotes to mention the Reasons when Capital Employed is negative by a Company
7.	MNP Information	Proforma J(I)- Statement of Non-Financial	No Provision	Number of porting request received:	This information should be further bifurcated into- No. Of

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
		Information for Mobile Number Portability			Port In & Port Out Requests Received as it will be linked with cost and revenue of MNP services while maintaining PROFIT & LOSS STATEMENT - Product (Proforma B)
8.	Basis of allocation				A predefined allocation basis for allocation of Network Cost to Product should be there for uniformity.
9.	Related Party Transactions	Proforma H			Analysis of Normal Price and Actual Price Charged from the related party should be there and companies to be ask for basis of calculation of normal price.
10.	Value Added Services	Product Category 3(d) of Schedule 1 and draft regulation point no. 2 (xxix) of definition			Exhaustive List of Value Added Services to be provided in the regulation for separately identification of revenue and cost from each category and should be added in the definition e.g:- <u>Non Voice Value Added Service</u> Subscription of Clips and Ringtones SMS based contest Advanced Video features etc.

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
					<u>Pure Voice based Value Added Service</u> Voice based ringtone downloading Music, News, Astrology etc. on demand Quiz/contest/opinion etc.
11.	Free/Reduce rates Benefit Analysis				Free benefit is given to the customer in the form of free sms, reduce call rates, free internet etc. for which there is no separate identification in the product category. Provision Should be made in the product category for accurate analysis of revenue and cost related to the product.
12.	Product Category	Product category of Schedule I			i. Infrastructure Sharing Revenue should be separately captured in product category so that its revenue and cost can be analysed. ii. For Prepaid- Recharge Fee category should be added for separate identification.
13.	Causation effect				Clarification should be there

Sanjay Gupta & Associates

Cost Accountants

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
					for attribution of common assets used for different services e.g. operator having ILD/NLD/ISP licenses and some assets are being used commonly for such services.
14.	Generally Accepted Cost Accounting policies and applicable cost accounting standard in manual	Chapter-II Manual and Reports- 3(2)	No Provisions	No Provisions	Description of Generally Accepted Cost Accounting Policies and Applicable Cost Accounting Standard should be provided in manual prepared by the company.
15.	Common Roaming Revenue and Expenses				Clarification of Segregation of some common revenue and expenses between different services should be there is the regulation such as Intra-circle roaming revenue, Intra-circle roaming expenses, Roaming NW setup charges , automatic roaming clearing house charges
16.	Submission of Cost Audit Report to TRAI		No Provision	No Provision	The Authority should mandate the Service Providers to submit the Cost Audit Reports also to TRAI like they are submitting Audited Financial Statements & Annual Reports to TRAI & DOT

Sanjay Gupta & Associates

Cost Accountants

S.No.	Heading	Reference of the Letter/Draft inviting comments	Provisions as per ASR, 2004	Proposed Provisions as per ASR, 2012	Our Comments/Views and Suggestions
17.	<i>Approval by Board of Directors</i>	Letter No. 16-07/2010-FA & Schedule IV of the Draft	No Provision	As per Letter- There is a provision for adoption of audited ASR by the Board of Directors of the Company; As per the Schedule IV- The Company is responsible for preparation of the Accounting Separation Reports and these Have been approved by the Board of Directors of the Company.	Clarification required whether Audit ASR is to be adopted or the ASR prepared by the Company is to be adopted.
18.	<i>Submission of the Reports</i>	Pg 9 of the Draft			To whom the Auditors should address the Audited Reports of the Service Provider should be clearly specified.

Thanking You,

Yours Faithfully,

Sanjay Gupta

Partner

Sanjay Gupta & Associates- Cost Accountants

M:+91-9810041074

E: sanjay@sgaindia.in